



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Board of Investments*  
*For the Two Fiscal Years Ended*  
*June 30, 2008*

DECEMBER 2008

LEGISLATIVE AUDIT  
DIVISION

08-04A

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# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Monica Huyg, Legal Counsel



Deputy Legislative Auditors  
James Gillett  
Angie Grove

December 2008

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Board of Investments (Board) for the two fiscal years ended June 30, 2008. The financial audit of the Board for fiscal year ended June 30, 2007, was issued in a separate report (07-04). This report along with our financial audit constitutes the financial-compliance audit report for the two fiscal years ended June 30, 2008. We performed this annual audit of the Board in compliance with Article VIII, section 13 of the Montana Constitution, and section 17-6-321, MCA. Our report contains two recommendations to the Board to improve the Board's compliance with state law and accounting policy. The Board's response to each recommendation is contained at the end of report, beginning on page C-3.

We thank the members of the Board of Investments and their staff for their cooperation and assistance during the audit.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor



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## APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
<b>Montana Board of Investments</b>	Terry Moore, Chairman	Billings	1/2011
	Elouise Cobell	Browning	1/2009
	Teresa Cohea	Helena	1/2009
	Karl Englund	Missoula	1/2011
	Maureen Fleming	Missoula	1/2011
	John Paull	Butte	1/2009
	Jack Prothero	Great Falls	1/2009
	John Satre	Helena	1/2011
	Jim Turcotte	Helena	1/2009
	Dan Weinberg	Senate Liaison	
	Tom McGillvray	House of Representatives Liaison	

### Administrative Officials

Carroll South, Executive Director

Geri Burton, Deputy Director

Cliff Sheets, Chief Investment Officer

Gayle L. Moon, Accounting Fiscal Manager

For additional information concerning the Montana Board of Investments, contact:

Carroll South, Executive Director  
P.O. Box 200126  
Helena, MT 59620-0126  
(406) 444-0001  
e-mail: csouth@mt.gov

REPORT SUMMARY

Board of Investments

This report contains the results of our financial-compliance audit of the Board of Investments (Board) for the two fiscal years ended June 30, 2008. The financial audit of the Board for the fiscal year ended June 30, 2007, was issued in a separate report (07-04). This report along with our financial audit constitutes the financial-compliance audit report for the two fiscal years ended June 30, 2008. We issued an unqualified opinion on the fiscal year 2007-08 financial statements of the Board of Investments' Consolidated Unified Investment Program and Enterprise Fund.

This report contains two recommendations to the Board related to compliance with state law and state accounting policy. The prior financial audit report for the fiscal year ended June 30, 2007, contained no recommendations.

The listing below serves as a means of summarizing the recommendations contained in the report, the Board response thereto, and a reference to the supporting comments.

Recommendation #1 .....3

We recommend the Board:

- A. Work with the Montana State Fund to ensure the Board of Investment's involvement in the construction of the building is completed in accordance with state law, and
- B. Implement procedures to determine the intended future use of buildings when entering into real estate agreements to ensure compliance with state law.

Board Response: Concur ..... C-3

Recommendation #2 .....4

We recommend the Board implement procedures to ensure it properly accounts for investments in default status in accordance with generally accepted accounting principles.

Board Response: Concur .....C-4





# Chapter I – Introduction

## **Introduction**

We performed a financial-compliance audit of the Board of Investments (Board) for the fiscal year ended June 30, 2008. The objectives of the audit were to:

- ♦ Determine whether the Board complied with selected state laws and regulations.
- ♦ Obtain an understanding of the Board's control systems to the extent necessary to support an audit of the Board's financial statements, and if appropriate, make recommendations for improvement in management and the internal controls of the Board.
- ♦ Determine whether the Board's financial statements present fairly the results of operations for the two fiscal years ended June 30, 2008, and 2007.
- ♦ Determine the status of prior audit recommendations.

The financial audit of the Board for the fiscal year ended June 30, 2007, was issued in a separate report (07-04).

In accordance with section 5-13-307, MCA, we analyzed the cost to implement the recommendations and believe the costs are not significant to the Board.

## **Background**

The Board, created in 1971, is attached to the Department of Commerce for administrative purposes. The Board employs an executive director and chief investment officer who in turn hire and manage staff. The staff members advise the Board, implement its decisions, and perform daily investment, economic development, and record keeping functions. Included in this report is a list of the members of the Board of Investments and its Administrative Officials (page ii).

The Board chose to present consolidated investment pool and nonpool financial statements for fiscal years 2007-08 and 2006-07 rather than the separate pool and All Other Funds statements as presented in previous years. This change in presentation provides the financial user a comprehensive view of all pooled and nonpooled investments.

## **Prior Audit Recommendations**

The prior financial audit report for the fiscal year ended June 30, 2007, contained no recommendations.



## Chapter II – Findings and Recommendations

### **Montana State Fund Building**

Section 17-6-201(4), MCA, states, in part, “the board has the primary authority to invest state funds....The board shall direct the investment of state funds in accordance with the laws and constitution of this state.” In fiscal year 2005-06, the Board of Investments (Board) authorized the allocation of invested resources of the Montana State Fund to construct a building. In fiscal year 2006-07, the Board acquired land at a cost of \$1,131,940 and building construction began in August 2008. These transactions were recorded on the state’s accounting system as an investment as of June 30, 2008.

Section 17-1-102(4), MCA, requires state agencies report the receipt, use, and disposition of all public money and property in accordance with generally accepted accounting principles (GAAP). GAAP requires real estate to be classified either as an investment or a capital asset, depending on its predominant use. If the future use of the building is predominantly for housing the investor’s own operations, the building should be classified as a capital asset. Board staff stated Montana State Fund will be the primary occupant of the building. Thus, the building should not be recorded as an investment, but as a capital asset. Board management stated they were unaware of the requirements of GAAP when they entered into the agreement with Montana State Fund. The Board has investments in several other buildings and treated this one the same. However, the buildings are not predominately used for housing the investor’s own operations. Board management said it did not consider that Montana State Fund would be the primary occupants of the building.

As a result of the Montana State Fund building being a capital asset rather than an investment, the Board may not be in compliance with its investing authority under section 17-6-201(4), MCA. The Board should work with the Montana State Fund to ensure the Board’s involvement in the construction of the building is in compliance with its authority under section 17-6-201(4), MCA.

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#### **RECOMMENDATION #1**

*We recommend the Board:*

- A. *Work with the Montana State Fund to ensure the Board of Investment’s involvement in the construction of the building is completed in accordance with state law, and*
  - B. *Implement procedures to determine the intended future use of buildings when entering into real estate agreements to ensure compliance with state law.*
-

## **Accounting for Investments in Default**

The Board purchased \$140 million of structured investment vehicles held in the Short Term Investment Pool (STIP). At the time of purchase, these investments received the highest investment grade rating. When the issuer defaulted on these investments in fiscal year 2007-08, the Board reclassified these investments as a long-term accounts receivable on the state's accounting records at June 30, 2008.

State accounting policy defines receivables as claims held against others for services provided, goods sold, or taxes levied. This includes amounts billed or items submitted for collections for which moneys are to be collected. GAAP defines investments as a security or other asset acquired primarily for the purpose of obtaining income or profit. GAAP requires the classification of an investment to be based on management's intent when they were purchased. Management's intent when purchasing the structured investment vehicles was to hold the securities as an investment until maturity so reclassifying them as a long-term accounts receivable was inappropriate.

The Department of Administration (DOA) provided the Board with guidance to correct the state's accounting records prior to fiscal year-end. DOA suggested the Board record the securities in default as an investment. Since the Board did not make this adjustment to the state's accounting records, \$140 million was misclassified as a receivable. Board staff stated they believed once investments were in default a long-term accounts receivable was proper accounting treatment. However, in October 2008 the Board adjusted its Statement of Net Asset Value/Investments Managed of the Montana Board of Investments Consolidated Unified Investment Program for \$140 million.

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### **RECOMMENDATION #2**

*We recommend the Board implement procedures to ensure it properly accounts for investments in default status in accordance with generally accepted accounting principles.*

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# **Independent Auditor's Report and Board Financial Statements**



# LEGISLATIVE AUDIT DIVISION

B-1

Tori Hunthausen, Legislative Auditor  
Monica Huyg, Legal Counsel



Deputy Legislative Auditors  
James Gillett  
Angie Grove

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Statement of Net Asset Value/Investments Managed of the Montana Board of Investments, Consolidated Unified Investment Program as of June 30, 2008, and 2007, and the related Statement of Changes in Net Asset Value/Investments Managed, and Statement of Investment Income and Distribution, for each of the fiscal years then ended. The information contained in these financial statements is the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the Montana Board of Investments, Consolidated Unified Investment Program as of June 30, 2008, and 2007, and its changes in net asset value/investments managed and investment income and distribution for each of the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

*/s/ James Gillett*

James Gillett, CPA  
Deputy Legislative Auditor

November 26, 2008

**MONTANA BOARD OF INVESTMENTS**  
**CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT**  
**STATEMENT OF NET ASSET VALUE/INVESTMENTS MANAGED JUNE 30, 2008 AND 2007**

	<u><b>2008</b></u>	<u><b>2007</b></u>
<b>Assets</b>		
Cash	\$ 17,266,879	\$ 7,340,174
Security lending cash collateral (Note 5)	836,203,843	698,909,871
Broker receivable for securities sold but not settled (Note 2A)	33,967,399	14,885,969
Dividend and interest receivable (Note 2E)	68,543,146	111,086,901
STIP investment portfolio at amortized cost (Note 2B)	2,322,008,128	2,789,738,734
Investment portfolios at fair value (Note 2B)	<u>10,473,336,072</u>	<u>10,649,795,613</u>
<b>Total assets (Note 2B)</b>	<b>\$ 13,751,325,467</b>	<b>\$ 14,271,757,262</b>
<b>Liabilities</b>		
Income due participants (Notes 2E)	\$ 31,121,618	\$ 34,290,689
Broker payable for securities purchased but not settled (Note 2A)	99,374,745	62,138,718
Security lending obligations (Note 5)	836,203,843	698,909,871
Security lending expense payable	1,587,852	3,061,325
Unrealized foreign exchange market gain (loss)	249,585	(82,281)
Other payables	206,737	39,437
Administrative fee payable	4,238,184	3,437,740
STIP reserve (Note 7)	<u>4,352,667</u>	<u>0</u>
<b>Total liabilities (Note 2B)</b>	<u>977,335,231</u>	<u>801,795,499</u>
<b>Net asset value/investments managed (Note 2B, 2C)</b>	<b>\$ 12,773,990,236</b>	<b>\$ 13,469,961,763</b>
Pool Units Outstanding (Note 2B, 2C)	2,390,312,896	2,861,083,078

**STATEMENT OF CHANGES IN NET ASSET VALUE/INVESTMENTS MANAGED**  
**FOR FISCAL YEARS ENDING JUNE 30, 2008 AND 2007**

Net asset value/investments, beginning of year	\$ 13,469,961,763	\$ 11,687,907,633
Value of pool units/investments purchased (Note 2D)	13,874,166,338	12,998,491,932
Value of pool units/investments sold/matured (Note 2D)	(13,979,187,863)	(12,162,345,767)
Increase (decrease) in AOF interest receivable	(531,143)	622,699
Increase (decrease) in AOF broker receivable	(78,728)	51,300
(Increase) decrease in AOF accounts payable	33,207	(7,441)
(Increase) decrease in AOF security lending expense payable	741,098	(316,991)
Changes in current value of investments managed (Note 2D)	<u>(591,114,436)</u>	<u>945,558,398</u>
<b>Net asset value/investments managed, end of year</b>	<b>\$ 12,773,990,236</b>	<b>\$ 13,469,961,763</b>

**STATEMENT OF INVESTMENT INCOME and DISTRIBUTION FOR FISCAL YEARS ENDED JUNE 30, 2008 AND 2007**

Net realized gains (Note 2E)	\$ 26,598,055	\$ 163,514,964
Dividend/interest income (Note 2E)	380,536,951	351,407,967
Amortization/accretion (Note 2E)	73,207,790	97,264,829
Security lending income (Note 5)	42,135,165	26,889,433
Security lending expense (Note 5)	(34,612,280)	(25,953,789)
Administrative expenses (Note 2F)	(41,612,233)	(21,064,451)
Other expenses	(841,495)	(873,556)
STIP reserve expense (Note 7)	(4,346,500)	
Income due participants, beginning of year	<u>34,290,689</u>	<u>22,764,985</u>
Income available for distribution (Note 2E)	475,356,142	613,950,382
Distribution (Note 2E)	<u>444,234,524</u>	<u>579,659,693</u>
Income due participants, end of year (Note 2E)	<b>\$ 31,121,618</b>	<b>\$ 34,290,689</b>

The accompanying notes are an integral part of these financial statements.



**STATE OF MONTANA BOARD OF INVESTMENTS  
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**1. HISTORY AND ORGANIZATION**

The Board was created by the Legislature to manage the Unified Investment Program established by the state Constitution. The Investment Program is comprised of all state funds, including pensions, trusts, insurance, and cash. Local government entities may only invest in the Short Term Investment Pool portion of the Program. The Board manages the Investment Program pursuant to the “Prudent Expert Principle” mandated by state law, which requires an investment manager to:

(a) discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims;

(b) diversify the holdings of each fund within the unified investment program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and

(c) discharge the duties solely in the interest of and for the benefit of the funds forming the unified investment program.

Currently, only the nine retirement funds and the Montana State Fund (Workers’ Compensation) may invest in stock. All other state funds must be invested in fixed-income type investments. Neither state law nor the state Constitution place restrictions on retirement fund investments. The funds are invested solely at the discretion of the Board pursuant to the “Prudent Expert Principle.”

To facilitate management of the Investment Program, the Board created seven investment pools (Pools) that operate similar to mutual funds. All state agencies and many local government entities participate in one or more Pools. By investing in large Pools with other participants the smaller participants are provided broad diversification not otherwise possible. Some Pools are dedicated solely to the state’s nine retirement funds, while others are open to other state and local government funds. State agencies, ineligible to participate in a long term investment pool, have direct fixed income, equity, real estate, loan and mortgage investments. These investments are combined and reported as All Other Funds (AOF) Investments Managed. The Pools, AOF Investments Managed, Pool creation date and eligible participants are shown below.

<u>Pool/Investments Managed Name</u>	<u>Creation Date</u>	<u>Eligible Participants</u>
Retirement Funds Bond Pool (RFBP)	04/01/95	Nine Retirement Funds Only
Trust Funds Bond Pool (TFBP)	10/01/95	Various State Trust Funds
Montana Domestic Equity Pool (MDEP)	07/01/80	Nine Retirement Funds/Small Trusts
Montana International Equity Pool (MTIP)	06/01/96	Nine Retirement Funds Only
Montana Private Equity Pool (MPEP)	05/01/02	Nine Retirement Funds Only
Montana Real Estate Pool (MTRP)	06/01/06	Nine Retirement Funds Only
Short Term Investment Pool (STIP)	07/01/74	All State Funds and Local Governments
All Other Funds (AOF) Investments Managed	NA	Non-Pool State Agency Investments

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Valuation and Timing** – The value of stocks and bonds are recorded at both “book” and “fair” value. The book or carrying value of a stock is the average cost of the shares held. If the same stock has been purchased several times, the average of the purchase prices is the book value. The book value of bonds is the “amortized” cost, which represents the original cost, adjusted for premium and discount amortization where applicable. If bonds are purchased at more than the par value, the difference is called a premium. If they are purchased for less than par value, the difference is called discount. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life, or maturity date of the securities. The fair value of publicly traded stocks and bonds is determined by reference to market prices supplied by State Street Bank (the custodial bank). Because a public market does not exist for private equity and real estate investments, the fair value of these investments is the value reported in the most recent external managers’ valuation reports. The book or carrying value of these private investments is the capital invested less capital returned. Except for STIP, all investment portfolios presented in the Statement of Net Asset Value are at “fair” value.

Accounting for stock and bond securities is based on the “trade date”, which means the sale or purchase of a security is

**STATE OF MONTANA BOARD OF INVESTMENTS  
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT**

recorded on the trade date, rather than the “settlement” date. This generally accepted practice results in a purchased security included in the investment portfolio on the trade date even though payment will not occur until the settlement date. Conversely, a sold security will be eliminated from the investment portfolio on the trade date even though the sale proceeds will not be received until the settlement date. This delayed timing requires that “receivables” and “payables” for securities sold/purchased but not yet settled must be reported in the financial statement and calculated in the Net Asset Value. Private equity and real estate investments are included in the portfolio when funds are wired.

Currency exposures may be hedged, partially or fully, at the discretion of the manager to preserve the U.S. dollar value of investments made. Currency speculation, such as over-hedging, reverse hedging or other trading activity not specifically aimed at preserving the U.S. dollar value of investments is not authorized.

**B. Pool Net Asset Value/Investments Managed** – The Pool Net Asset Value (NAV) must be calculated accurately to ensure participants are paying or receiving a “fair” price when units are purchased and sold. The NAV must include not only the fair value of the investment portfolio (except for STIP at book value) but any liabilities payable by the Pool and receivables due the Pool on the NAV calculation date. Investment accounting uses the “accrual” basis, which means bond interest due is recorded when earned, rather than when cash is received. Interest “due” is recorded as a receivable (asset) and included in the NAV on the date of the calculation. Dividends are recorded as of “ex-dividend date.” Income due to Pool participants is recorded on the date due to the participants, rather than on actual distribution date. Income Due Participants is a payable (liability) and included in the NAV on the calculation date. The effect of assets and liabilities on the Pool NAV is depicted in the table below. The difference between Pool investment portfolios at fair value and the NAV is the net of other assets and liabilities. The STIP portfolio is shown in the Statement of Net Asset Value at amortized cost or “book” value. The All Other Funds (AOF) Investments Managed (IM) represent direct investments by approximately 20 state agencies in fixed income securities, an equity index fund, real estate buildings, commercial loans and residential mortgages. These state agencies do not buy or sell participant units based on a NAV calculation for their AOF Investments Managed. The book value, fair value, Pool NAV and AOF Investments Managed (IM) are shown in the table on the next page.

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**STATE OF MONTANA BOARD OF INVESTMENTS  
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT**

**June 30, 2008 Investment Portfolios and Net Asset Value (NAV)/Investments Managed (IM)**

<b><u>Pool</u></b>	<b><u>Book Value</u></b>	<b><u>Fair Value *</u></b>	<b><u>NAV/IM</u></b>
Retirement Funds Bond Pool (RFBP)	1,995,227,873	1,991,701,315	1,966,209,536
Trust Funds Bond Pool (TFBP)	1,543,685,172	1,545,945,703	1,525,195,966
Montana Domestic Equity Pool (MDEP)	2,949,750,890	2,965,611,148	2,972,686,616
Montana International Equity Pool (MTIP)	1,320,309,704	1,437,640,868	1,446,301,196
Montana Private Equity Pool (MPEP)	640,012,167	744,098,947	744,061,238
Montana Real Estate Pool (MTRP)	319,436,934	329,186,301	326,540,885
Short Term Investment Pool (STIP)*	2,322,008,128	2,322,008,128	2,318,634,887
All Other Funds (AOF) Investments Managed	<u>1,444,468,005</u>	<u>1,459,151,790</u>	<u>1,474,359,912</u>
<b>Total</b>	<b><u>12,534,898,874</u></b>	<b><u>12,795,344,200</u></b>	<b><u>12,773,990,236</u></b>

**June 30, 2007 Investment Portfolios and Net Asset Value (NAV)/Investments Managed (IM)**

<b><u>Pool</u></b>	<b><u>Book Value</u></b>	<b><u>Fair Value *</u></b>	<b><u>NAV/IM</u></b>
Retirement Funds Bond Pool (RFBP)	1,969,001,908	1,964,715,151	1,969,724,339
Trust Funds Bond Pool (TFBP)	1,377,795,892	1,374,840,538	1,381,812,779
Montana Domestic Equity Pool (MDEP)	2,743,901,727	3,467,579,758	3,466,347,984
Montana International Equity Pool (MTIP)	1,278,743,938	1,612,071,367	1,615,596,682
Montana Private Equity Pool (MPEP)	515,061,200	621,897,548	621,497,145
Montana Real Estate Pool (MTRP)	156,324,730	158,790,732	157,501,002
Short Term Investment Pool (STIP)*	2,789,738,734	2,789,738,734	2,792,537,625
All Other Funds (AOF) Investments Managed	<u>1,428,644,473</u>	<u>1,449,900,519</u>	<u>1,464,944,207</u>
<b>Total</b>	<b><u>12,259,212,602</u></b>	<b><u>13,439,534,347</u></b>	<b><u>13,469,961,763</u></b>

\* The STIP portfolio is recorded at amortized cost in the Fair Value column.

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**STATE OF MONTANA BOARD OF INVESTMENTS  
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT**

The table below shows the individual Pool and AOF assets, liabilities, and NAV/Investments Managed. Included in the Pool and Investments Managed assets are the value of the investment portfolios, cash, receivables for securities sold but not yet settled, and dividend/interest receivables. Included in the liabilities are payables for securities purchased but not yet settled, income due participants, and other miscellaneous payables. The “securities lending” asset/liability shown in the Statement of Net Asset Value/ Investments Managed nets to zero and has no “net” effect on the Pool NAV and AOF Investments Managed.

**2008 Assets, Liabilities and Net Asset Value (NAV)/Investments Managed (IM)**

<u><b>Pool</b></u>	<u><b>Assets</b></u>	<u><b>Liabilities</b></u>	<u><b>NAV/IM</b></u>
Retirement Funds Bond Pool (RFBP)	2,114,919,548	148,710,012	1,966,209,536
Trust Funds Bond Pool (TFBP)	1,650,953,561	125,757,595	1,525,195,966
Montana Domestic Equity Pool (MDEP)	3,277,358,234	304,671,618	2,972,686,616
Montana International Equity Pool (MTIP)	1,541,240,521	94,939,325	1,446,301,196
Montana Private Equity Pool (MPEP)	744,098,947	37,709	744,061,238
Montana Real Estate Pool (MTRP)	329,201,987	2,661,102	326,540,885
Short Term Investment Pool (STIP)	2,429,451,415	110,816,528	2,318,634,887
All Other Funds (AOF) Investments Managed	1,664,101,254	189,741,342	1,474,359,912
<b>Total</b>	<b>13,751,325,467</b>	<b>977,335,231</b>	<b>12,773,990,236</b>

**2007 Assets, Liabilities and Net Asset Value (NAV)/Investments Managed (IM)**

<u><b>Pool</b></u>	<u><b>Assets</b></u>	<u><b>Liabilities</b></u>	<u><b>NAV/IM</b></u>
Retirement Funds Bond Pool (RFBP)	2,091,941,581	122,217,242	1,969,724,339
Trust Funds Bond Pool (TFBP)	1,470,170,078	88,357,299	1,381,812,779
Montana Domestic Equity Pool (MDEP)	3,646,878,109	180,530,125	3,466,347,984
Montana International Equity Pool (MTIP)	1,774,847,610	159,250,928	1,615,596,682
Montana Private Equity Pool (MPEP)	621,897,548	400,403	621,497,145
Montana Real Estate Pool (MTRP)	159,033,212	1,532,210	157,501,002
Short Term Investment Pool (STIP)	2,804,936,526	12,398,901	2,792,537,625
All Other Funds (AOF) Investments Managed	1,702,052,598	237,108,391	1,464,944,207
<b>Total</b>	<b>14,271,757,262</b>	<b>801,795,499</b>	<b>13,469,961,763</b>

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**C. Pool Participant Units** – Pool units are purchased and sold similar to individuals investing in mutual funds. The STIP participants purchase and sell units, at \$1 per unit, at their discretion. All non-STIP Pool units and AOF direct investments are purchased and sold at the discretion of Board investment staff based on asset allocations approved by the Board. For non-STIP Pool participants to purchase and sell units, the units must be “priced.” Once the Pool NAV is calculated, the unit value is priced by dividing the NAV by the number of outstanding units. The unit value is then used when units are purchased or sold. Like securities, Pool units also have a “book” value, which is the price of the unit when it was purchased. The book value does not change unless the participant purchased additional units at different prices. Because the AOF Investments Managed (IM) is not an investment pool, there are no Units Outstanding or a Pool Unit Value. The calculations for Pool unit values are shown below:

**2008 NAV/IM - Units Outstanding - Unit Value**

<u>Pool Name</u>	<u>NAV/IM</u>	<u>Units Outstanding</u>	<u>Unit Value</u>
Retirement Funds Bond Pool (RFBP)	1,966,209,536	19,563,664	100.50
Trust Funds Bond Pool (TFBP)	1,525,195,966	15,723,233	97.00
Montana Domestic Equity Pool (MDEP)	2,972,686,616	20,972,463	141.74
Montana International Equity Pool (MTIP)	1,446,301,196	8,223,227	175.88
Montana Private Equity Pool (MPEP)	744,061,238	4,085,576	182.12
Montana Real Estate Pool (MTRP)	326,540,885	3,109,846	105.00
Short Term Investment Pool (STIP)	2,318,634,887	2,318,634,887	1.00
All Other Funds (AOF) Investments Managed	1,474,359,912	NA	NA
<b>Total</b>	<b>12,773,990,236</b>	<b>2,390,312,896</b>	<b>NA</b>

**2007 NAV/IM - Units Outstanding - Unit Value**

<u>Pool Name</u>	<u>NAV/IM</u>	<u>Units Outstanding</u>	<u>Unit Value</u>
Retirement Funds Bond Pool (RFBP)	1,969,724,339	19,604,653	100.47
Trust Funds Bond Pool (TFBP)	1,381,812,779	14,312,848	96.54
Montana Domestic Equity Pool (MDEP)	3,466,347,984	21,153,092	163.87
Montana International Equity Pool (MTIP)	1,615,596,682	8,198,003	197.07
Montana Private Equity Pool (MPEP)	621,497,145	3,731,013	166.58
Montana Real Estate Pool (MTRP)	157,501,002	1,545,844	101.89
Short Term Investment Pool (STIP)	2,792,537,625	2,792,537,625	1.00
All Other Funds (AOF) Investments Managed	1,464,944,207	NA	NA
<b>Total</b>	<b>13,469,961,763</b>	<b>2,861,083,078</b>	<b>NA</b>

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**D. Changes in Net Asset Value/Investments Managed** – This table depicts the change in NAV/IM from the previous year to the current year. There are three components contributing to the changes: 1) the value of Pool participant units and AOF investments purchased; 2) the value of Pool participant units and AOF investments sold; and 3) the change in the value of investments managed. The change in NAV for each Pool and AOF Investments Managed is shown in the table on the following page.

**2008 Pool Unit/AOF Investment Activity and Change in Value of Investments**

<u>Pool</u>	<u>Value of Units/ Investments Purchased</u>	<u>Value of Units/ Investments Sold</u>	<u>Change in Value of Investments</u>
Retirement Funds Bond Pool (RFBP)	2,800,000	(6,958,243)	643,439
Trust Funds Bond Pool (TFBP)	138,167,302		5,215,885
Montana Domestic Equity Pool (MDEP)	6,190,000	(14,934,944)	(484,916,424)
Montana International Equity Pool (MTIP)	5,255,000	(136,765)	(174,413,721)
Montana Private Equity Pool (MPEP)	63,120,000		59,444,093
Montana Real Estate Pool (MTRP)	161,500,000	-	7,539,883
Short Term Investment Pool (STIP)	7,460,338,229	(7,934,240,967)	
All Other Funds (AOF) Investments Managed	<u>6,036,795,807</u>	<u>(6,022,916,944)</u>	<u>(4,627,591)</u>
<b>Total</b>	<b><u>13,874,166,338</u></b>	<b><u>(13,979,187,863)</u></b>	<b><u>(591,114,436)</u></b>

**2007 Pool Unit/AOF Investment Activity and Change in Value of Investments**

<u>Pool</u>	<u>Value of Units/ Investments Purchased</u>	<u>Value of Units/ Investments Sold</u>	<u>Change in Value of Investments</u>
Retirement Funds Bond Pool (RFBP)	109,670,000		11,367,339
Trust Funds Bond Pool (TFBP)	73,936,557	(19,469,054)	5,092,482
Montana Domestic Equity Pool (MDEP)	9,699,997	(118,345,358)	422,333,342
Montana International Equity Pool (MTIP)	880,000	(172,551)	371,439,970
Montana Private Equity Pool (MPEP)	117,500,000		103,614,518
Montana Real Estate Pool (MTRP)	125,000,000		2,466,002
Short Term Investment Pool (STIP)	7,769,243,126	(7,176,208,453)	-
All Other Funds (AOF) Investments Managed	<u>4,792,562,252</u>	<u>(4,848,150,351)</u>	<u>29,244,746</u>
<b>Total</b>	<b><u>12,998,491,932</u></b>	<b><u>(12,162,345,767)</u></b>	<b><u>945,558,398</u></b>

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**E. Distributable Income** – Bond Pool and AOF distributable income reported in the Statement of Investment Income and Distribution includes accrued interest, miscellaneous income, amortization/accretion of discount/premium, and realized gains (losses) on sales. STIP income is comprised of accrued interest and amortization of discount. Public equity, private equity, and private real estate Pools distributable income consists primarily of dividends. Realized capital gains in the MPEP and MTRP are not distributed unless the gains are needed to pay management fees. Income Due Participants is distributed monthly on the first calendar day of each month. Realized Bond Pool and AOF portfolio gains/losses are distributed monthly.

In fiscal year 2008, the sale of pool units from the Montana Domestic Equity Pool (MDEP), Montana International Equity Pool (MTIP), and Retirement Fund Bond Pool (RFBP) generated a net gain to participants of \$20,420,061. In fiscal year 2007, the sale of pool units from the Montana Domestic Equity Pool (MDEP), Trust Funds Bond Pool (TFBP), and the Montana International Equity Pool (MTIP) generated a net gain to participants of \$154,843,150. These gains were recorded as AOF activity. The major distributable income for each Pool and the AOF is shown below.

**2008 Major Sources of Distributable Income**

<u>Pool</u>	<u>Gain (Loss)</u>	<u>Dividend\ Interest</u>	<u>Amortization\ Accretion</u>
Retirement Funds Bond Pool (RFBP)	801,665	106,519,052	5,892,443
Trust Funds Bond Pool (TFBP)	46,769	78,164,854	4,795,586
Montana Domestic Equity Pool (MDEP)		30,657,473	
Montana International Equity Pool (MTIP)		30,475,684	
Montana Private Equity Pool (MPEP)	4,650,076	11,120,564	
Montana Real Estate Pool (MTRP)		11,057,248	
Short Term Investment Pool (STIP)		43,512,626	60,575,090
All Other Funds (AOF) Investments Managed	<u>21,099,545</u>	<u>69,029,450</u>	<u>1,944,671</u>
<b>Total</b>	<b><u>26,598,055</u></b>	<b><u>380,536,951</u></b>	<b><u>73,207,790</u></b>

**2007 Major Sources of Distributable Income**

<u>Pool</u>	<u>Gain (Loss)</u>	<u>Dividend\ Interest</u>	<u>Amortization\ Accretion</u>
Retirement Funds Bond Pool (RFBP)	5,056,841	101,515,996	8,121,273
Trust Funds Bond Pool (TFBP)	4,421,784	72,550,314	6,151,238
Montana Domestic Equity Pool (MDEP)		27,342,728	
Montana International Equity Pool (MTIP)		24,012,311	
Montana Private Equity Pool (MPEP)	1,800,000	8,716,185	
Montana Real Estate Pool (MTRP)		3,109,188	
Short Term Investment Pool (STIP)	-	43,632,233	81,277,191
All Other Funds (AOF) Investments Managed	<u>152,236,339</u>	<u>70,529,012</u>	<u>1,715,127</u>
<b>Total</b>	<b><u>163,514,964</u></b>	<b><u>351,407,967</u></b>	<b><u>97,264,829</u></b>

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**Distributable income for the fiscal year may not be distributed by June 30. Any undistributed amount is recorded as a payable against the NAV of the Pool at year-end. The distributable and undistributed income is shown below.**

**2008 Distributable and Undistributed Income**

<u><b>Pool Name</b></u>	<u><b>Distributable</b></u>	<u><b>Distributed</b></u>	<u><b>Undistributed</b></u>
Retirement Funds Bond Pool (RFBP)	123,139,399	112,860,568	10,278,831
Trust Funds Bond Pool (TFBP)	90,747,626	82,700,924	8,046,702
Montana Domestic Equity Pool (MDEP)	23,799,314	20,847,818	2,951,496
Montana International Equity Pool (MTIP)	25,686,193	23,069,221	2,616,972
Montana Private Equity Pool (MPEP)	1,813,803	1,776,094	37,709
Montana Real Estate Pool (MTRP)	5,593,848	2,932,746	2,661,102
Short Term Investment Pool (STIP)	112,122,210	107,593,404	4,528,806
All Other Funds (AOF) Investments Managed	<u>92,453,749</u>	<u>92,453,749</u>	<u>0</u>
<b>Total</b>	<u><b>475,356,142</b></u>	<u><b>444,234,524</b></u>	<u><b>31,121,618</b></u>

**2007 Distributable and Undistributed Income**

<u><b>Pool Name</b></u>	<u><b>Distributable</b></u>	<u><b>Distributed</b></u>	<u><b>Undistributed</b></u>
Retirement Funds Bond Pool (RFBP)	124,826,037	115,615,202	9,210,835
Trust Funds Bond Pool (TFBP)	91,174,640	83,927,177	7,247,463
Montana Domestic Equity Pool (MDEP)	24,639,107	22,847,185	1,791,922
Montana International Equity Pool (MTIP)	19,159,796	17,450,695	1,709,101
Montana Private Equity Pool (MPEP)	2,810,620	2,410,217	400,403
Montana Real Estate Pool (MTRP)	2,220,061	687,851	1,532,210
Short Term Investment Pool (STIP)	125,321,963	112,923,208	12,398,755
All Other Funds (AOF) Investments Managed	<u>223,798,158</u>	<u>223,798,158</u>	<u>0</u>
<b>Total</b>	<u><b>613,950,382</b></u>	<u><b>579,659,693</b></u>	<u><b>34,290,689</b></u>

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**F. Investment Management Fees** – The Legislature sets the maximum management fee the Board may charge the accounts it manages. The maximum fee is set at the aggregate level and at the beginning of each fiscal year. The Board allocates the aggregate fees across the Pools and AOF investments managed outside the Pools. Custodial bank fees are paid by a statutory appropriation from the state general fund. The Board allocates custodial bank fees across the Pools and accounts invested outside the Pools and deposits the proceeds in the general fund. The State Treasurer then pays the monthly custodial bank fees from the general fund. External manager fees are paid directly from the accounts they manage. Investment management fees charged each Pool and the AOF investments are shown below.

**Fiscal 2008 Management Fees**

<b><u>Pool</u></b>	<b><u>Board</u></b>	<b><u>Custodial Bank</u></b>	<b><u>External Managers</u></b>	<b><u>Total</u></b>
Retirement Funds Bond Pool (RFBP)	419,493	107,484		526,977
Trust Funds Bond Pool (TFBP)	399,237	85,596		484,833
Montana Domestic Equity Pool (MDEP)	763,959	268,504	9,451,735	10,484,198
Montana International Equity Pool (MTIP)	635,222	401,789	6,795,462	7,832,473
Montana Private Equity Pool (MPEP)	501,500	78,320	13,422,569	14,002,389
Montana Real Estate Pool (MTRP)	536,133	28,032	5,944,802	6,508,967
Short Term Investment Pool (STIP)	462,467	248,408	-	710,875
All Other Funds (AOF) Investments Managed	878,289	119,596	63,636	1,061,521
<b>Total</b>	<b>4,596,300</b>	<b>1,337,729</b>	<b>35,678,204</b>	<b>41,612,233</b>

**Fiscal 2007 Management Fees**

<b><u>Pool</u></b>	<b><u>Board</u></b>	<b><u>Custodial Bank</u></b>	<b><u>External Managers</u></b>	<b><u>Total</u></b>
Retirement Funds Bond Pool (RFBP)	332,964	69,150		402,114
Trust Funds Bond Pool (TFBP)	307,722	55,354		363,076
Montana Domestic Equity Pool (MDEP)	1,079,808	170,862	3,397,267	4,647,937
Montana International Equity Pool (MTIP)	223,141	256,042	5,816,740	6,295,923
Montana Private Equity Pool (MPEP)	213,288	160,274	6,875,870	7,249,432
Montana Real Estate Pool (MTRP)	149,184	12,786	779,097	941,067
Short Term Investment Pool (STIP)	233,436	155,215	-	388,651
All Other Funds (AOF) Investments Managed	639,373	74,659	62,219	776,251
<b>Total</b>	<b>3,178,916</b>	<b>954,342</b>	<b>16,931,193</b>	<b>21,064,451</b>

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**3. INVESTMENT COMMITMENTS**

Investments in private equity and private real estate are usually made via Limited Partnership Agreements that involve many limited partners and a General Partner who is responsible for all investment decisions. The Limited Partners make an original commitment, after which capital is called as needed by the General Partner to make investments. These Agreements will usually last for a minimum of 10 years. The table below shows the remaining Board commitments to private equity funds.

**MPEP Commitments as of June 30, 2008**

<u>Fund Manager Name</u>	<u>Original Commitment</u>	<u>Commitment Remaining</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Adams Street	\$ 330,129,264	\$ 56,968,621	\$ 184,993,885	\$ 213,905,012
Affinity Equity Partners	15,000,000	11,538,712	2,995,454	2,968,762
ArcLight	50,000,000	8,631,290	32,175,265	33,251,388
Avenue Capital	35,000,000	18,375,402	15,938,965	14,665,298
Buerk Dale Victor	15,000,000	10,950,000	4,050,000	3,315,285
Carlyle Partners	60,000,000	17,425,034	40,606,539	44,341,656
CCMP Capital Advisors	30,000,000	22,910,624	6,551,322	6,720,929
First Reserve Corporation	30,000,000	11,102,060	18,521,706	20,279,546
HarbourVest Partners	20,000,000	35,500,000	4,500,000	4,485,749
Hellman & Friedman	25,000,000	12,371,772	12,567,684	12,912,906
Highway 12 Investors	10,000,000	7,502,483	2,158,305	1,991,776
Industry Ventures	10,000,000	1,713,913	6,909,491	7,768,251
J.C. Flowers & Co	25,000,000	3,452,768	18,207,293	12,963,283
JLL Partners	25,000,000	8,530,218	13,424,148	19,222,145
Lehman Brothers, Inc.	50,000,000	26,268,181	17,469,586	22,667,557
Lexington Capital Partners	110,000,000	33,530,880	30,463,525	54,877,081
Madison Dearborn	75,000,000	28,335,868	39,887,294	51,042,289
MatlinPatterson Global Advisers	30,000,000	17,250,000	12,370,624	15,050,621
MHR Institutional Investors	25,000,000	13,500,000	10,788,757	12,325,993
Oak Hill Capital Partners	45,000,000	20,734,964	22,287,066	28,272,370
Oaktree	110,000,000	32,375,000	2,625,001	3,052,739
Odyssey	25,000,000	7,174,462	11,245,894	13,453,643
Performance Equity Management	25,000,000	25,000,000	0	0
Portfolio Advisors	55,000,000	37,725,244	15,754,779	16,336,245
Quintana Energy Partners	15,000,000	5,699,748	8,791,401	8,422,285
Siguler Guff	25,000,000	18,761,754	5,708,022	5,390,228
Terra Firma Capital Partners	25,432,997	12,070,565	12,173,472	13,310,846
Welsh Carson	<u>75,000,000</u>	<u>17,317,661</u>	<u>42,043,054</u>	<u>55,295,005</u>
<b>Total MPEP Commitments</b>	<b>\$ <u>1,370,562,261</u></b>	<b>\$ <u>522,717,224</u></b>	<b>\$ <u>595,208,532</u></b>	<b>\$ <u>698,288,888</u></b>

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The table below shows the remaining Board commitments to Private Real Estate Funds.

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**MTRP Commitments as of June 30, 2008**

<b><u>Fund Manager Name</u></b>	<b><u>Original Commitment</u></b>	<b><u>Commitment Remaining</u></b>	<b><u>Carrying Value</u></b>	<b><u>Fair Value</u></b>
ABR Chesapeake Fund III	\$ 20,000,000	\$ 6,000,000	\$ 13,845,514	\$ 14,534,204
AG (Angelo Gordon) Realty Fund VII	20,000,000	16,400,000	3,600,000	3,189,233
AG Core Plus Realty Fund II	20,000,000	14,800,000	4,881,597	4,674,090
Apollo Real Estate Finance Corp.	20,000,000	15,202,000	4,798,000	4,718,134
Beacon Capital Partners Fund V	25,000,000	12,500,000	12,500,000	12,097,988
Carlyle Europe Real Estate Partners III	29,920,000	28,317,835	6,343,764	6,093,312
CIM Fund III	25,000,000	23,262,899	653,372	482,560
DRA Advisors VI	35,000,000	22,030,393	10,272,803	10,272,803
Hudson Realty Capital Fund IV	25,000,000	3,500,000	21,500,000	21,804,333
Liquid Realty Fund IV	30,000,000	17,686,808	9,239,713	9,743,093
Macquarie Global Property Fund III	30,000,000	23,732,639	3,794,964	3,670,929
Morgan Stanley Real Estate Fund VI International	25,000,000	10,739,287	13,600,275	11,768,644
O'Connor North American Property Partners II	15,000,000	9,380,925	5,619,075	5,619,075
Rothschild: Five Arrows Realty Securities Fund V	30,000,000	18,007,775	2,499,076	2,496,345
Strategic Partners Value Enhancement Fund	19,200,000	4,755,761	13,724,239	15,535,632
TA Associates Realty Fund VIII	20,000,000	3,985,645	16,000,000	16,540,560
<b>Total MTRP Commitments</b>	<b><u>\$ 389,120,000</u></b>	<b><u>\$ 230,301,967</u></b>	<b><u>\$ 142,872,392</u></b>	<b><u>\$ 143,240,935</u></b>

#### **4. TYPES OF INVESTMENTS**

**Bond Pools and AOF Investments** – The RFBP, TFBP and AOF fixed income portfolios include corporate and foreign government bonds; U.S. government direct obligations and U.S. government agency securities; and cash equivalents. U.S. government direct obligations include U.S. Treasury securities and debt explicitly guaranteed by the U.S. government. U.S. government agency securities include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages.

The bond Pools also include structured financial instruments known as REMIC securities (Real Estate Mortgage Investment Conduits). These investments are pass-through vehicles for multi class mortgage-backed securities and some may be interest-only strips (IO). These investments represent the separate purchase of the principal and interest cash flows of a mortgage security and receive cash flows from the interest payment component on underlying mortgage loans. These securities are identified and reported as U.S. government agency in the investment risk and portfolio disclosures.

**Public Equity Pools** -The public equity Pools may include common stock, equity index shares, preferred stock, convertible equity securities, American Depositary Receipts (ADR), equity derivatives, and commingled funds. Common stock represents ownership units (shares) of a public corporation. Common stock owners may vote on director selection and other important matters and receive dividends if the company pays dividends. Equity index investments are comprised of shares in institutional commingled funds with equity portfolios that match a broad based index or specific industry composite. Preferred stocks pay dividends at a specified rate and have preference in the payment of dividends and liquidation of assets. Preferred stock holders do not usually have voting rights.

Convertible securities permit the holder to exchange, or “convert” the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer’s common stock. ADR investments are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. Equity derivatives, such as futures and options, “derive” their value from underlying equity instruments. An institutional commingled fund combines assets from several institutional investors that are blended or pooled together, to reduce management and administration costs. The investor buys shares in the fund.

The MDEP portfolio is limited to domestic stock or ADR investments, while the MTIP portfolio may include holdings of

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securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges. The MTIP portfolio invests in both developed and emerging markets.

**Alternative Investment Pools** - The Montana Private Equity Pool (MPEP) may include venture capital, leveraged buyout, mezzanine, distressed debt, special situation and secondary investments. These investments are made via Limited Partnership Agreements in which the Board and other institutional investors invest as Limited Partners in funds managed by a General Partner. These investments are riskier with higher potential return than public equity investments and are less liquid because the funds are usually committed for at least 10 years. Because of the risk and illiquidity, these investments are limited to sophisticated investors only.

The private Montana Real Estate Pool (MTRP) includes investments in core, value-added, and opportunistic real estate. Core investments are the least risky with the lowest return and are usually managed in commingled accounts in which the investor purchases shares. Value-added and opportunistic real estate investments provide more risk and return and are less liquid than core investments. These investments are usually made through Limited Partnership Agreements. The MTRP invests its cash in STIP.

**STIP** - This Pool is managed to preserve principal, while obtaining money market type returns and 24-hour liquidity. Funds may be invested for one or more days. Although it is not registered with the Securities and Exchange Commission (SEC) as an investment company, STIP is managed consistent with the SEC rule 2a7 of the Investment Company Act of 1940. As a 2a7-like pool, the STIP utilizes an amortized cost unit value to report net assets. The portfolio may include asset-backed securities, commercial paper, corporate, U.S. government direct obligations, U.S. government agency securities, repurchase agreements, institutional money market funds, certificates of deposit and variable-rate (floating-rate) instruments. Investments must have a maximum maturity of 397 days or less unless they have rate reset dates. The portfolio is carried at amortized cost or book value with a constant unit value of \$1.00.

Asset-backed securities are debt securities collateralized by a pool of mortgage and non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. Commercial paper is unsecured short-term debt with maturities ranging from 1 to 270 days. Commercial paper issued at a discount, direct or by brokers, is backed by bank credit lines. U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. Repurchase agreements (REPO) represent an agreement between a seller and a buyer, usually of U.S. government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and stated time. Variable-rate (floating-rate) securities pay a variable rate of interest until maturity. The STIP portfolio's variable-rate securities float with LIBOR (London Interbank Offered Rate).

**AOF** - In addition to fixed income investments, the AOF portfolio includes an equity index fund, real estate buildings, commercial loans and residential mortgages. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad based index or composite.

The AOF Montana mortgages and loans receivable represent residential mortgages and commercial loans funded by the Public Employees' and Teachers' pension funds and the Coal Severance Tax Trust fund. The Coal Severance Tax Trust loan portfolio includes loans made by the Montana Science and Technology Alliance (MSTA) Board. The MSTa Board was abolished on July 1, 1999 and the MSTa portfolio was assigned to the Board. (See Note 11) for the Montana mortgages and loans portfolio). There are no uncollectible account balances for Montana mortgages and loans receivable as of June 30, 2008 and 2007.

## 5. SECURITIES LENDING

The Board is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust "the Bank", to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. The Board and the bank split the earnings on security lending activities.

During fiscal years 2008 and 2007, the custodial bank lent Board public securities and received U.S. dollar and foreign currency cash, securities issued or guaranteed by the U.S. government, sovereign debt rated A or better, convertible bonds, and irrevocable bank letters of credit as collateral. The custodial bank cannot pledge or sell collateral securities unless the borrower defaults. The Board imposed no restrictions on the amount of securities available to lend during fiscal years 2008 and 2007. There were no failures by any borrowers to return loaned securities or pay distributions

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thereon during the period. Also, there were no losses resulting from a borrower default.

During fiscal years 2008 and 2007, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool. The Securities Lending Quality Trust had an average duration of 41 and 66 days, respectively, as of June 30, 2008 and 2007. The Quality D Trust had an average duration of 42 and 68 days, respectively, as of June 30, 2007 and 2006. Because the loans were terminable at will, their duration generally did not match the duration of the investments made with cash collateral. At year-end 2008 and 2007, the Board had no credit risk exposure to borrowers because the collateral pledged by the borrowers exceeded the value of the securities borrowed. The private equity and real estate Pools do not participate in securities lending. The Pool and AOF securities on loan, at fair value, and the collateral pledged are shown below.

<b>Pool/AOF</b>	<b>Fair Value On Loan 6/30/08</b>	<b>Collateral Cash</b>	<b>Collateral Securities</b>	<b>Collateral Total</b>
Retirement Funds Bond Pool (RFBP)	\$ 757,648,616	\$ 100,299,351	\$ 673,980,520	\$ 774,279,871
Trust Funds Bond Pool (TFBP)	523,354,390	86,356,146	448,208,570	534,564,716
Montana Domestic Equity Pool (MDEP)	297,267,013	281,984,538	23,804,824	305,789,362
Montana International Equity Pool (MTIP)	121,418,250	76,460,958	50,812,599	127,273,557
Short Term Investment Pool (STIP)	389,544,349	101,755,298	295,637,500	397,392,798
All Other Funds (AOF) Investments Managed	446,160,367	189,347,552	265,784,180	455,131,732
<b>Total</b>	<b>\$ 2,535,392,985</b>	<b>\$ 836,203,843</b>	<b>\$ 1,758,228,193</b>	<b>\$ 2,594,432,036</b>

<b>Pool/AOF</b>	<b>Fair Value On Loan 6/30/07</b>	<b>Collateral Cash</b>	<b>Collateral Securities</b>	<b>Collateral Total</b>
Retirement Funds Bond Pool (RFBP)	\$ 612,237,767	\$ 86,995,499	\$ 538,088,375	\$ 625,083,874
Trust Funds Bond Pool (TFBP)	449,744,374	61,184,725	\$ 397,968,750	459,153,475
Montana Domestic Equity Pool (MDEP)	167,729,961	169,065,232	\$ 3,279,200	172,344,432
Montana International Equity Pool (MTIP)	184,229,316	145,724,118	\$ 45,487,112	191,211,230
Short Term Investment Pool (STIP)	30,305,594	-	\$ 30,918,750	30,918,750
All Other Funds (AOF) Investments Managed	300,291,105	235,940,297	\$ 69,739,224	305,679,521
<b>Total</b>	<b>\$ 1,744,538,117</b>	<b>\$ 698,909,871</b>	<b>\$ 1,085,481,411</b>	<b>\$ 1,784,391,282</b>

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Securities lending income and expenses are shown below.

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<u>Pool/AOF</u>	<u>Fiscal Year 2008</u>		
	<u>Gross Income</u>	<u>Expenses</u>	<u>Net Income</u>
Retirement Funds Bond Pool (RFBP)	\$ 5,591,740	\$ 4,349,359	\$ 1,242,381
Trust Funds Bond Pool (TFBP)	4,682,296	3,704,509	977,787
Montana Domestic Equity Pool (MDEP)	13,405,691	11,571,573	1,834,118
Montana International Equity Pool (MTIP)	5,207,845	3,873,964	1,333,881
Short Term Investment Pool (STIP)	3,187,854	2,494,740	693,114
All Other Funds (AOF) Investments Managed	10,059,739	8,618,135	1,441,604
<b>Total</b>	<b>\$ 42,135,165</b>	<b>\$ 34,612,280</b>	<b>\$ 7,522,885</b>

<u>Pool/AOF</u>	<u>Fiscal Year 2007</u>		
	<u>Gross Income</u>	<u>Expenses</u>	<u>Net Income</u>
Retirement Funds Bond Pool (RFBP)	\$ 5,366,381	\$ 5,244,886	\$ 121,495
Trust Funds Bond Pool (TFBP)	2,398,706	2,342,988	55,718
Montana Domestic Equity Pool (MDEP)	4,493,577	4,275,510	218,067
Montana International Equity Pool (MTIP)	5,066,447	4,620,839	445,608
Short Term Investment Pool (STIP)	148,142	147,317	825
All Other Funds (AOF) Investments Managed	9,416,180	9,322,249	93,931
<b>Total</b>	<b>\$ 26,889,433</b>	<b>\$ 25,953,789</b>	<b>\$ 935,644</b>

## 6. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The investment risk disclosures are described in the following paragraphs.

**Credit Risk** - Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the RFBP, TFBP and AOF fixed income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed income security may default in making timely principal and interest payments. The Board of Investments' policy requires RFBP, TFBP and AOF fixed income investments, at the time of purchase, to be rated an investment grade as defined by Moody's or by Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the tables below are provided by the S&P rating services. If an S&P rating is not available, a Moody's rating has been used.

**Custodial Credit Risk** - Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Board may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2008 and 2007, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank, State Street Bank. The Equity Index, US Bank repurchase agreement, Real Estate, Mortgage and Loan investments were purchased and recorded in the Board's name. Commingled fund investments are registered in the name of the Montana Board of Investments.

**Concentration of Credit Risk** - Concentration of credit risk is the risk of loss attributed to the magnitude of an investor's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement.

Although the RFBP Investment Policy does not address concentration of credit risk, the TFBP Investment Policy states:

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“with the exception of U.S. government/agency securities, additional purchases will not be made in a credit if the credit risk exceeds 2 percent of the portfolio at the time of purchase”. The RFBP had concentration of credit risk exposure to the Federal National Mortgage Association (Fannie Mae) of 9.62% as of June 30, 2008 and 9.22% restated from less than 5% as of June 30, 2007, while the TFBP had concentration of credit risk exposure to the same issuer of 12.96% as of June 30, 2008 and 10.96% restated from less than 5% as of June 30, 2007. The RFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp. (Freddie Mac) of 23.01% as of June 30, 2008 and 24.64% restated from 5.39% as of June 30, 2007, while the TFBP had concentration of credit risk exposure to the same issuer of 22.79% as of June 30, 2008 and 25.96% restated from 10.10% as of June 30, 2007. The concentration of credit risk restatements resulted from a change in methodology.

With the exception of one fund, the 19 investment policy statements for various AOF state agencies do not address concentration of credit risk. One fund requires credit risk to be limited to 3 percent in any one name except AAA rated issues will be limited to 6%. This fund also has specific client preferences. Investments by various state agencies, pooled as the All Other Funds, are excluded from the concentration of credit risk requirement.

MDEP - As of June 30, 2008 and 2007, there were no single issuer investments that exceeded 5% of the MDEP portfolio.

STIP - The STIP had concentration of credit risk exposure to the Federal Home Loan Bank of 6.86%, Federal National Mortgage Association (Fannie Mae) of 7.55 % and the Federal Home Loan Mortgage Corp. (Freddie Mac) of 5.71% as of June 30, 2008. The STIP portfolio, by issuer, had no concentration of credit risk exposure as of June 30, 2007.

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**Foreign Currency Risk** - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The MPEP, MTRP and MTIP U.S. dollar cash and equity positions, by currency, are reported in the tables below.

**MPEP and MTRP Investment by Foreign Currency**

<u>Currency</u>	<u>Fund Manager Name</u>	<u>2008</u>		<u>2007</u>	
		<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
EURO	Terra Firma Fund III	\$ 12,173,472	13,310,847	\$ 52,090	0
EURO	Carlyle Europe Real Estate Partners III	<u>6,343,764</u>	<u>6,093,312</u>	<u>0</u>	<u>0</u>
<b>Total MPEP and MTRP</b>		<b>\$ <u>18,517,236</u></b>	<b><u>19,404,158</u></b>	<b># <u>52,090</u></b>	<b><u>0</u></b>

**MTIP Cash by Currency**

<u>Cash</u>	<u>2008</u>		<u>2007</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Australian Dollar	\$ 388,969	\$ 392,722	\$ 783,649	\$ 793,356
Brazilian Real	18,417	18,974	392	394
Canadian Dollar	729,945	732,038	17,288	17,519
Danish Krone	64,175	66,795	52,320	52,305
Hong Kong Dollar	1,278,638	1,280,107	320,105	319,990
Indonesian Rupiah	697	701	-	-
Hungarian Forint	-	-	23,887	24,173
Euro	2,529,837	2,565,670	1,260,859	1,268,195
Israeli Shekel	17,983	18,058	9,087	9,146
Japanese Yen	1,814,509	1,829,773	3,026,127	2,984,194
South Korean Won	8,686	8,651	43,322	43,384
Malaysian Ringgit	13,344	13,381	27,370	27,337
Mexican Peso	69,810	70,029	1,907	1,906
New Zealand Dollar	7,480	7,075	-	-
Norwegian Krone	495,854	503,343	438,783	447,978
Philippine Peso	638	636	-	-
Polish Zloty	477	489	-	-
Singapore Dollar	471,294	475,107	86,407	86,409
Swedish Krona	863,157	883,046	72,304	71,973
Swiss Franc	47,494	49,286	544,770	540,157
New Taiwan Dollar	73,658	73,838	62,470	62,997
Thailand Baht	6,001	5,997	12,169	12,176
Turkish Lira	288	290	3,802	3,812
UK British Pound	464,024	468,669	383,867	388,486
US Dollar	<u>3,937</u>	<u>3,937</u>	<u>188</u>	<u>188</u>
<b>Total Cash</b>	<b>\$ <u>9,369,313</u></b>	<b>\$ <u>9,468,612</u></b>	<b>\$ <u>7,171,073</u></b>	<b>\$ <u>7,156,075</u></b>



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**MTIP Equities by Currency**

<u>Securities</u>	<u>2008</u>		<u>2007</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Australian Dollar	35,668,174	47,035,005	38,279,708	50,915,926
Brazilian Real	6,283,707	6,965,888	1,764,304	1,981,024
Canadian Dollar	41,840,802	49,716,338	29,320,055	35,890,007
Czech Koruna	418,951	769,564	-	-
Danish Krone	8,647,759	12,176,042	9,316,434	13,037,001
Euro-Austria	12,591,907	13,804,890	10,412,698	13,930,219
Euro-Belgium	12,405,503	8,427,354	7,408,223	8,488,887
Euro-Finland	15,820,495	15,418,566	11,822,681	14,315,298
Euro-France	73,476,141	67,502,708	85,086,140	100,730,411
Euro-Germany	71,763,475	78,858,322	67,373,715	84,083,860
Euro-Greece	6,809,661	6,768,565	6,420,397	7,999,225
Euro-Ireland	591,692	629,007	1,987,111	1,975,479
Euro-Italy	40,017,833	36,404,573	31,499,283	37,031,582
Euro-Netherlands	34,642,646	35,886,023	39,963,600	45,873,044
Euro-Portugal	2,510,681	2,616,331	2,213,129	2,884,776
Euro-Spain	34,179,576	34,032,983	18,128,964	20,443,255
<b>Euro-Subtotal</b>	<b>304,809,610</b>	<b>300,349,321</b>	<b>282,315,941</b>	<b>337,756,036</b>
Hong Kong Dollar	44,311,905	44,072,366	25,240,441	34,255,197
Indonesian Rupiah	1,462,993	1,404,300	741,044	982,562
Hungarian Forint	-	-	1,375,386	2,003,487
Israeli Shekel	1,322,599	1,972,933	1,817,817	1,871,608
Japanese Yen	175,132,645	168,174,661	165,809,915	186,819,142
South Korean Won	17,699,117	18,269,893	21,988,142	29,199,894
Malaysian Ringgit	1,922,403	1,857,066	3,921,885	4,493,461
Mexican Peso	5,722,857	5,914,973	6,373,053	6,854,022
New Zealand Dollar	344,101	244,630	371,062	438,522
Norwegian Krone	10,467,297	13,130,710	6,565,909	10,320,168
Philippine Peso	1,108,064	1,099,907	639,398	1,226,819
Polish Zloty	924,737	997,288	567,298	768,410
Singapore Dollar	11,685,220	13,421,869	11,107,459	14,983,915
South African Rand	4,466,878	4,657,980	1,596,750	1,850,274
Swedish Krona	9,726,554	8,781,470	21,940,872	23,603,481
Swiss Franc	40,893,896	42,437,671	54,609,564	61,902,461
New Taiwan Dollar	8,325,947	8,560,020	5,567,126	7,360,087
Thailand Baht	2,096,267	2,082,642	4,546,002	5,404,292
Turkish Lira	1,403,549	1,744,517	2,506,283	3,568,453
UK Pound Sterling	135,918,845	129,715,160	125,242,587	141,522,337
<b>Total Equity</b>	<b><u>872,604,877</u></b>	<b><u>885,552,215</u></b>	<b><u>823,524,436</u></b>	<b><u>979,008,586</u></b>

**Interest Rate Risk** - Bond Pool and AOF interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The AOFs' investment policies do not formally address interest rate risk. In accordance with GASB Statement No. 40, the Board utilizes the effective duration method to disclose interest rate risk for the Bond Pool and AOF portfolios. This method provided by the custodial bank is "An option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is calculated as the average

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percentage change in a bond's value (price plus accrued interest) under shifts of the Treasury curve plus/minus 100 basis points. The effective duration method incorporates the effect of the embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-through securities, CMO, and ARM securities)."

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

As reported in the U.S. government agency category, the RFBP portfolio held REMIC securities totaling \$249,844 and \$303,613 at amortized cost, respectively, as of June 30, 2008 and June 30, 2007, while the TFBP portfolio held REMIC securities totaling \$46,806 and \$57,019 at amortized cost respectively. REMICs (Real Estate Mortgage Investment Conduits) are pass-through vehicles for multiclass mortgage-backed securities. These securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages.

Interest Only (IO) securities are more sensitive to prepayments by mortgagees resulting from interest rate changes than other REMIC securities. The IO REMIC securities purchased by the RFBP in August and September 1992 carry an amortized cost of \$3 as of June 30, 2007. These securities matured in August and September 2007.

As of June 30, 2007, the RFBP and TFBP each held one inverse variable rate corporate \$25 million and \$15 million par bond respectively. The quarterly coupon is calculated at an increased set rate less the 12 month LIBOR in arrears. As interest rates increase, the coupon paid will decline. This security was sold in March 2008.

The Bond Pools and AOF portfolio fixed income securities pay a fixed rate of interest until maturity while the variable rate (floating rate) securities pay a variable rate of interest until maturity. As of June 30, 2008, these portfolios held six variable rate issues. These securities float with LIBOR (London Interbank Offered Rate). See Note 17 for the Year End Portfolios.

As of June 30, 2008 and 2007, the Bond Pools and AOF portfolio held five Collateralized Debt Obligations (CDO). A CDO is security backed by a pool of bonds, loans and other assets. CDOs do not specialize in one type of debt but are often non-mortgage loans or bonds. These CDO positions, totaling \$135 million par, are categorized as rated corporate debt in the three portfolios.

Bond Pool and AOF investments are categorized below to disclose credit and interest rate risk as of June 30, 2008 and June 30, 2007. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

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**RFBP Credit Quality Rating and Effective Duration as of June 30, 2008**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 996,726,110	A	4.77
Corporate Bonds (Unrated)	13,016,381	NR	6.43
U.S. Government Direct Obligations	127,133,284	AAA	5.23
U.S. Government Agency	783,061,173	AAA	4.33
Short Term Investment Pool (STIP)	<u>71,764,367</u>	<u>NR</u>	<u>NA</u>
Total Fixed Income Investments	\$ <u>1,991,701,315</u>	<u>AA</u>	<u>4.63</u>
Securities Lending Collateral Investment Pool	\$ <u>100,299,351</u>	NR	NA

**RFBP Credit Quality Rating and Effective Duration as of June 30, 2007**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 969,566,185	A	5.01
Corporate Bonds (Unrated)	8,030,395	NR	5.61
U.S. Government Direct Obligations	75,036,052	AAA	6.09
U.S. Government Agency	798,830,104	AAA	5.50
Short Term Investment Pool (STIP)	<u>113,252,415</u>	<u>NR</u>	<u>NA</u>
Total Fixed Income Investments	\$ <u>1,964,715,151</u>	<u>AA</u>	<u>5.27</u>
Securities Lending Collateral Investment Pool	\$ <u>86,995,499</u>	NR	NA

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**TFBP Credit Quality Rating and Effective Duration as of June 30, 2008**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 747,118,821	A+	4.39
Corporate Bonds (Unrated)	5,390,715	NR	5.58
Municipal Government Bonds (Rated)	1,125,555	AA	7.92
Municipal Government Bonds (Unrated)	1,508,366	NR	4.94
U.S. Government Direct Obligations	113,103,058	AAA	6.72
U.S. Government Agency	632,681,246	AAA	4.60
Short Term Investment Pool (STIP)	<u>45,017,942</u>	<u>NR</u>	<u>N/A</u>
 Total Investments	 \$ <u>1,545,945,703</u>	 <u>AA</u>	 <u>4.66</u>
 Securities Lending Collateral Investment Pool	 \$ <u>86,356,146</u>	 NR	 NA

**TFBP Credit Quality Rating and Effective Duration as of June 30, 2007**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 672,495,745	A	4.75
Corporate Bonds (Unrated)	1,319,514	NR	0.94
Municipal Government Bonds (Rated)	1,180,500	AAA	1.85
Municipal Government Bonds (Unrated)	2,287,149	NR	4.74
U.S. Government Direct Obligations	47,634,484	AAA	8.78
U.S. Government Agency	587,139,201	AAA	5.56
Short Term Investment Pool (STIP)	<u>62,783,945</u>	<u>NR</u>	<u>NA</u>
 Total Investments	 \$ <u>1,374,840,538</u>	 <u>AA</u>	 <u>5.25</u>
 Securities Lending Collateral Investment Pool	 \$ <u>61,184,725</u>	 NR	 NA

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**AOF Credit Quality Rating and Effective Duration as of June 30, 2008**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 499,796,852	A+	3.68
U.S. Government Direct Obligations	63,654,728	AAA	5.56
U.S. Government Agencies	524,206,909	AAA	3.03
US Bank Sweep Repurchase Agreement*	<u>12,123,446</u>	<u>NR</u>	<u>NA</u>
Total Fixed Income Investments	\$ <u>1,099,781,935</u>	<u>AA</u>	<u>3.06</u>
<u>Direct Investments</u>			
Equity Index Fund	\$ 87,443,325		
Real Estate	17,282,489		
MT Mortgages and Loans	<u>254,644,041</u>		
Total Direct Investments	\$ <u>359,369,855</u>		
<b>TOTAL INVESTMENTS</b>	\$ <u><b>1,459,151,790</b></u>		
Securities Lending Collateral Investment Pool	\$ <u>189,347,553</u>	NR	NA

\*At June 30, 2008, the US Bank repurchase agreement, per contract, was collateralized at 102% for \$12,368,170 by a Federal National Mortgage FNCI maturing September 1, 2018. This security carries a AAA credit quality rating.

**AOF Credit Quality Rating and Effective Duration as of June 30, 2007**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 440,549,099	A+	3.89
U.S. Government Direct Obligations	59,915,749	AAA	4.62
U.S. Government Agencies	517,414,883	AAA	3.30
US Bank Sweep Repurchase Agreement*	<u>18,255,027</u>	<u>NR</u>	<u>NR</u>
Total Fixed Income Investments	\$ <u>1,036,134,758</u>	<u>AA</u>	<u>3.63</u>
<u>Direct Investments</u>			
Equity Index Fund	\$ 100,545,339		
Real Estate	18,192,681		
MT Mortgages and Loans	<u>295,027,741</u>		
Total Direct Investments	\$ <u>413,765,761</u>		
<b>TOTAL INVESTMENTS</b>	\$ <u><b>1,449,900,519</b></u>		
Securities Lending Collateral Investment Pool	\$ <u>235,940,298</u>	NR	NA

\*At June 30, 2007, the US Bank repurchase agreement, per contract, was collateralized at 102% for \$18,628,275 by a Federal Home Loan Mortgage Corporation REMIC maturing April 15, 2034. This security carries a AAA credit quality rating.

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STIP investments are categorized below to disclose credit risk as of June 30, 2008 and June 30, 2007. Credit risk reflects the security quality rating by investment type, as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated.

STIP interest rate risk is determined using the weighted average maturity (WAM) method. The WAM measure expresses investment time horizons – the time when investments are due and payable in months or years – weighted to reflect the dollar size of individual investments within an investment type. The WAM, calculated in months, for the STIP portfolio is disclosed below, as of June 30, 2008. The WAM is not available for the SIV securities.

**STIP Credit Quality Ratings and Weighted Average Maturity as of June 30, 2008**

<b>Security Investment Type</b>	<b><u>Amortized Cost</u></b>	<b><u>Credit Quality Rating</u></b>	<b><u>WAM in Months</u></b>
Commercial Paper	\$ 1,278,677,750	A1+	0.94
Corporate Variable-Rate	179,971,989	A1	1.60
Certificates of Deposit	79,997,934	A1+	3.27
U.S. Government Agency	439,007,788	A1+	3.57
Money Market Funds (Unrated)	149,352,667	NR	0.03
Money Market Funds (Rated)	55,000,000	A1+	0.03
Structured Investment Vehicles (SIV)	<u>140,000,000</u>	<u>D</u>	<u>NA</u>
<b>Total Investments</b>	<b>\$ <u>2,322,008,128</u></b>	<b><u>A1</u></b>	<b><u>1.52</u></b>
Securities Lending Collateral Investment Pool	\$ <u>101,755,297</u>	NR	

**STIP Credit Quality Ratings as of June 30, 2007**

<b>Security Investment Type</b>	<b><u>Amortized Cost</u></b>	<b><u>Credit Quality Rating</u></b>
Commercial Paper	\$ 1,854,755,464	A1+
Corporate Fixed	475,001,174	A1+
Corporate Variable-Rate	379,982,640	A1+
Municipal Variable Rate (Unrated)	5,000,000	NR
Money Market Funds (Rated)	25,000,000	A1+
U.S. Government Agency	<u>49,999,456</u>	A1+
<b>Total Investments</b>	<b>\$ <u>2,789,738,734</u></b>	<b><u>A1+</u></b>
Securities Lending Collateral Investment Pool	\$ <u>0</u>	NR

**Legal and Credit Risk**

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**STIP** - In January 2007, the Board purchased a \$25 million par issue of Orion Finance USA. In April 2007, the Board purchased two issues of Axon Financial Funding totaling \$90 million par and another \$25 million par issue of Orion Finance USA. As of June 30, 2007, these Structured Investment Vehicle (SIV) securities held in the STIP portfolio carried a combined amortized cost of \$139,991,131 representing 5.02% of the total portfolio. At the time of purchase and as of June 30, 2007, these four issues received the highest investment grade rating of AAA by Standard & Poors and Aaa by Moody's. As of June 30, 2008, these issues carried a D rating by Standard & Poors. On November 20, 2007, an insolvency event was declared by Axon Financial Funding. Orion Finance USA declared an insolvency event on January 14, 2008. On the January and April 2008 maturity dates, these securities matured at their amortized cost of \$140 million. The Board has determined that it is currently in the best interest of the STIP to continue to hold these securities in the investment portfolio.

These SIV securities are currently undergoing restructuring while the underlying securities in the vehicle generate cash to be offset against the securities. At this time, there is no certain date for completion of the restructuring, which will likely include the creation of new securities to replace the original securities.

Of the \$5,687,990 Interest Receivable total as of June 30, 2008, \$2,729,889 is attributable to the above securities for interest accrued to their respective maturity dates. Refer to Note 16 – Subsequent Events, page B-31, for additional information.

**Bond Pool** - As of June 30, 2007, Burlington Industries, Inc. presented a legal and credit risk to the Board. The RFBP and TFBP held Burlington Industries, Inc., \$6 million and \$4 million par respectively of a 7.25% bond maturing September 15, 2005. In September 2000, the company announced a reduction of stockholders equity. Due to an increasing senior bank line and declining credit trend, the bond ratings for this issue were downgraded, in May 2001, by the Moody's and Standard & Poor's rating agencies. During fiscal year 2001, the RFBP book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of \$5,609,640 to \$2,400,000 and the TFBP book value reduced from the August 31, 2000 book value of \$3,739,760 to \$1,600,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the RFBP book value was reduced again to \$1,200,000., while the TFBP book value was reduced to \$800,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. Under the company's recovery plan, the RFBP received \$1,454,961 in August 2004 for its unsecured claim and the TFBP received \$969,974. This transaction reduced the RFBP book value to \$0 and generated a gain of \$254,961 and reduced the TFBP book value to \$0 and generated a gain of \$169,974. In February 2005 and May 2005, the RFBP received an additional \$208,771 and \$194,247, respectively, for its unsecured claim, while the TFBP received an additional \$139,180 and \$129,498, respectively. In May 2006, the RFBP received an additional payment of \$158,278, while the TFBP received an additional \$105,519. The RFBP and TFBP received the final distribution of \$74,177 and \$49,452 respectively in July 2007.

**AOF** - The Board is not aware of any legal risks regarding any AOF investments.

## 7. STIP RESERVE

This account was established in November 2007. Income is distributed to STIP participants based on accrued interest and discount amortization. To avoid distributing cash to participants based on accrued interest on certain SIVs that may be uncollectible; the accrued interest amount was deposited in this account. Additional accrued income was deposited in the account to pay for any incidental direct expenses incurred as a part of any SIV restructuring activity not to be paid from SIV assets. Accrued income was also deposited in the account to offset any potential principal loss on these securities in the future.

## 8. DEUTSCHE BANK SECURITIES, INC. COMPLAINT

The Board received a summons and complaint, dated September 3, 2002, regarding the RFBP and TFBP sale of a Pennzoil Quaker State, \$5 million par, 6.75% corporate bond maturing April 1, 2009 of \$5 million and \$8 million par respectively. Deutsche Bank Securities claimed a "breach of contract" for the March 25, 2002 sale of the bond at a price of \$94.669 plus accrued interest. Deutsche Bank Securities sought damages of \$538,632 and \$861,811 from the RFBP and TFBP respectively for the additional costs incurred to acquire the bond from third parties, plus any statutory interest, costs and expenses. On October 1, 2002, Shell Oil Company acquired Pennzoil and subsequently announced a public tender of Pennzoil Quaker State debt. The Board tendered the Pennzoil Quaker State holdings on October 8, 2002 at a price of \$113.099. The tender was accepted with a settlement date of November 1, 2002. On November 4, 2002, the RFBP received \$5,683,075 in principal and interest plus a \$150,000 consent fee, while the TFBP received \$9,092,920 in principal and interest plus a \$240,000 consent fee.



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On December 11, 2003, the Supreme Court of the State of New York, New York County, entered an order dismissing Deutsche Bank's complaint on jurisdictional grounds. Deutsche Bank appealed that decision to the Appellate Division, which on June 14, 2005 reversed the Supreme Court and entered an order determining the Board to be liable and remanding the matter back to the Supreme Court for a determination of damages. The Board appealed that decision to the New York Court of Appeals, which on June 6, 2006 affirmed the Appellate Division's decision. The Board petitioned for certiorari to the United States Supreme Court on certain jurisdictional issues but the Court did not act. On March 28, 2007, the Board reached a settlement of \$666,600 and \$1,066,800 respectively for the RFBP and TFBP.

**9. COAL TAX LOAN AND MORTGAGE COMMITMENTS**

The Board makes firm commitments to fund loans from the Coal Severance Tax Trust fund. These commitments have expiration dates and may be extended according to the Board's policies. As of June 30, 2008, the Board had committed but not yet purchased \$26,138,839 in loans from Montana lenders, compared to \$12,042,000 as of June 30, 2007. In addition to the above commitments, lenders had reserved \$7,474,356 for loans as of June 30, 2008, compared to \$40,754,872 on the same date in 2007.

The Board makes reservations to fund mortgages from the Public Employees' and Teachers' retirement funds. As of June 30, 2008, mortgage reservations totaled \$394,947. As of June 30, 2007, mortgage reservations totaled \$791,491. Effective December 1, 2005, all Board residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment.

**10. PENSION FUND REAL ESTATE INVESTMENTS**

**100 North Park Building**

In January 1996, the Board, purchased for the Public Employees' and Teachers' Retirement funds portfolios, the 100 North Park Avenue Building in Helena, Montana as a real estate investment. Acquired for a cost of \$4,864,326, the building carries a fair value of \$6,582,860 as of June 30, 2008. During fiscal year 2008, building improvements for build-outs, HVAC improvements, and leasing fees totaling \$81,989 were added to the cost of the building. Building improvements for build-outs, heating/cooling, and leasing fees totaling \$352,187 were included in the cost of the building in fiscal year 2007. The three-story building provides office space for six tenants.

**2401 Colonial Drive Building**

In August 1997, the Board authorized the construction of an office building as a real estate investment in the Public Employees' and Teachers' Retirement funds portfolios. Construction costs, including interest capitalization, totaled \$6,481,741 as of June 30, 2000. For fiscal year 2008, \$51,992 was capitalized for sprinkler system and heating/cooling system improvements. In fiscal year 2007, a composite plan of building and heating/cooling system improvements of \$99 were added to the building cost. The three-story building, providing office space for three tenants, was occupied in November 1999. As of June 30, 2008, the building carries a cost and fair value of \$7,235,942 and \$7,776,349, respectively.

**2273 Boot Hill Court Building**

In August 1999, the Board authorized the purchase of a new office building in Bozeman, Montana. Upon building completion, the Board purchased the building for the Public Employees' and Teachers' Retirement funds portfolios in March 2004, for \$2,051,032. In fiscal year 2008 and 2007, there were no improvements made to this building. The building, located on state school trust land, is occupied by four state agencies. As of June 30, 2008, the building carries a fair value of \$2,123,654.

**1712 Ninth Avenue Building**

In November 2000, the Land Board authorized the transfer of the Public Employees' Retirement Administration (PERA) office building, located at 1712 Ninth Avenue, Helena, to the Board. By issuance of a corrective deed, the Board was named owner and building manager for the use and benefit of the PERA. In fiscal year 2008, \$180 was capitalized for space pre-design. In fiscal year 2007, there were no improvements made to this building. As of June 30, 2008, the building, occupied by one tenant, is valued at \$579,626.

The schedule below details the minimum future rentals for the above buildings with non-cancelable operating leases as



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of June 30, 2008 and 2007:

**Minimum future rentals for the year ending June 30, 2008:**

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014+</u>	<u>Total</u>
\$827,768	\$510,068	\$416,432	\$258,743	\$219,189	0	\$2,232,198

**Minimum future rentals for the year ending June 30, 2007:**

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013+</u>	<u>Total</u>
\$933,825	\$591,639	\$531,938	\$415,526	\$256,222	\$261,313	\$2,990,461

**California Street Property**

In December 1998, the Board acquired a parcel of land adjacent to the Colonial Drive building for the Public Employees' and Teachers' Retirement funds portfolios to provide for additional parking. This land was purchased for \$204,835. For fiscal year 2008, there were no improvements made to this property. For fiscal year 2007, \$756 in filing fees were capitalized related to the purchase of the property. As of June 30, 2008 the property carries a fair value of \$220,000.

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**11. MONTANA MORTGAGES AND LOANS**

The Montana mortgages and loans portfolio is shown below.

<u>Montana Mortgages and Loans</u>	<u>2008 Book Value</u>	<u>2007 Book Value</u>
<b>Residential Mortgages</b>	<b>\$ 59,702,382</b>	<b>68,837,530</b>
Science and Technology Alliance <sup>(1)</sup>	4,217,637	4,286,782
Montana University System	8,722,199	8,802,368
Department of Natural Resources <sup>(2)</sup>	0	11,573,605
Department of Justice	2,547,000	2,317,000
Montana Facility Finance	4,878,661	4,615,196
Local Government Infrastructure	19,951,844	18,859,692
Value-added Loans	14,305,523	17,760,734
Commercial Loans	<u>141,063,339</u>	<u>158,551,796</u>
<b>Permanent Coal Trust Loans</b>	<b>195,686,203</b>	<b>226,767,173</b>
<b>Total Montana Mortgages and Loans</b>	<b>\$ <u>255,388,585</u></b>	<b>\$ <u>295,604,703</u></b>

(1) The Montana Science and Technology Alliance (MSTA) loans include funding for research and development, mezzanine and seed capital loans.

(2) In accordance with Senate Bill 495 enacted by the 2001 Legislature, the Coal Severance Tax Permanent Trust loaned 483,604 TFBP shares, with a book value of \$46,366,904, to the Department of Natural Resources, Trust and Legacy fund on July 2, 2001. The loan proceeds were deposited in the Trust and Legacy Fund. A loan receivable was recorded in the Coal Severance Tax Permanent Trust and a corresponding liability was recorded in the Guarantee Fund, a General Fund sub-fund. The August 2002 Special Legislative Session approved the request to record this activity in a state special revenue fund of the Office of Public Instruction rather than in the Guarantee Fund. In fiscal year 2008, the Trust and Legacy Fund paid \$11,573,605 to the Coal Severance Tax Permanent Trust. These transactions reduced the TFBP shares on loan and corresponding book value to zero with the final payment in February 2008. During fiscal year 2007, the Trust and Legacy Fund paid \$19,473,459 to the Coal Severance Tax Permanent Trust reducing the TFBP shares on loan to 120,712 with a corresponding book value of \$11,573,605.

**12. LOAN GUARANTEES**

As of June 30, 2008, loan guarantees provided by the Coal Severance Tax Permanent Trust to the Enterprise Fund and the Montana Facility Finance Authority total \$182,393,408. Board exposure to bond issues of the Enterprise Fund is \$98,390,000 while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority is \$84,003,408.

As of June 30, 2007, loan guarantees provided by the Coal Severance Tax Permanent Trust to the Enterprise Fund and the Montana Facility Finance Authority total \$186,630,336. Board exposure to bond issues of the Enterprise Fund is \$98,850,000 while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority is \$87,780,336.

**13. RFBP AND MDEP REORGANIZATION**

On May 14, 2008, the Board approved a staff recommendation to create a structure for the Retirement Funds Bond Pool for both internal and external asset management. In July 2008, four new managers were hired. The managers named include Reams Asset Management, Artio Global Management, Lehman Brothers Asset Management and Post Advisory Group. On October 1, 2008, Reams Asset Management was funded approximately \$200 million in cash and securities.

In February 2008, the three MDEP long/short (130/30) investment managers of Analytic Investors, JP Morgan and Martingale Asset Management were funded approximately \$400 million.

On May 8, 2007, the Board approved a staff recommendation to diversify the Board's domestic equity exposure. The

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revised allocation involves four strategy categories that will be used as the framework for constructing the Large Cap portion of the MDEP. These categories are Passive, Enhanced Index, Style-based (Value and Growth), and Partial Long/Short. These actions resulted in funding five new external managers, in total, approximately \$827 million in August 2007. The new external managers are listed as follows:

**Barrows, Hanley, Mewhinney & Strauss, Inc.  
Quantitative Management Associates  
Renaissance Investment Management**

**Columbus Circle Investors  
Rainier Investment Management**

**14. ACCOUNTING CHANGE**

In prior years, the Board issued separate financial statements for each investment Pool. Beginning with the fiscal years ended June 30, 2007 and 2006, the Board prepared consolidated financial statements for all seven investment Pools. For fiscal years ended June 30, 2008 and 2007, the All Other Funds (AOF) investments managed and related receivable/payable activity has been included in the consolidated financial statements. A consolidated financial statement better represents the scope, diversity, and size of the Unified Investment Program.

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**15. RESTATEMENT**

The inclusion of the 2007 All Other Funds financial statements in the consolidated financial statements resulted in restatements for fiscal year 2007. The 2007 AOF Unrealized Gain/Loss of \$21,256,046, previously reported as a liability, is now included in the Changes in Current Value of Investments Managed reported as \$29,244,746. This change resulted in Total Liabilities restated as \$237,108,391 from \$258,364,437 and Net Investments Managed End of Year restated as \$1,464,944,207 from \$1,443,688,161 as previously reported. Net Investments Managed Beginning of Year, previously reported as \$1,497,211,566 is restated as \$1,490,937,993. Fiscal year 2007 Net Investment Income of \$223,798,158 was relabeled as Income Available for Distribution and Distribution. The table below illustrates the AOF 2007 restatement and subsequent inclusion in the 2007 consolidated statements. The column labeled AOF 2007 Restated is the difference between the 2007 Consolidated Restated and Reported amounts.

	<u>Consolidated Restated 2007</u>	<u>Consolidated Reported 2007</u>	<u>AOF Restated 2007</u>
<b>STATEMENT OF NET ASSET VALUE/INVESTMENTS</b>			
Cash	\$ 7,340,174	\$ 7,340,174	
Security lending cash collateral (Note 5)	698,909,871	462,969,574	\$ 235,940,297
Broker receivable for securities sold but not settled (Note 2B)	14,885,969	14,706,862	179,107
Dividend and interest receivable (Note 2E)	111,086,901	95,054,226	16,032,675
STIP investment portfolio at amortized cost (Note 2B)	2,789,738,734	2,789,738,734	
Investment portfolios at fair value (Note 2B)	10,649,795,613	9,199,895,094	1,449,900,519
Total assets (Note 2B)	\$ 14,271,757,262	\$ 12,569,704,664	\$ 1,702,052,598
Income due participants (Notes 2E)	34,290,689	34,290,689	
Broker payable for securities purchased but not settled (Note 2B)	62,138,718	62,138,718	
Security lending obligations (Note 5)	698,909,871	462,969,574	235,940,297
Security lending expense payable	3,061,325	1,932,668	1,128,657
Unrealized foreign exchange market gain (loss)	(82,281)	(82,281)	
Other payables	39,437	-	39,437
Administrative fee payable	3,437,740	3,437,740	
Total liabilities (Note 2B)	801,795,499	564,687,108	237,108,391
Net asset value/investments managed (Note 2B, 2C)	\$ 13,469,961,763	\$ 12,005,017,556	\$ 1,464,944,207
Pool Units Outstanding (Note 2B, 2C)	2,861,083,078	2,861,083,078	
<b>STATEMENT OF CHANGES IN INVESTMENTS MANAGED</b>			
Net asset value/investments, beginning of year	\$ 11,687,907,633	\$ 10,196,969,640	\$ 1,490,937,993
Value of pool units/investments purchased (Note 2D)	12,998,491,932	8,205,929,680	4,792,562,252
Value of pool units/investments sold/matured (Note 2D)	(12,162,345,767)	(7,314,195,416)	(4,848,150,351)
Increase (decrease) in AOF interest receivable	622,699	-	622,699
Increase (decrease) in AOF broker receivable	51,300	-	51,300
(Increase) decrease in AOF accounts payable	(7,441)	-	(7,441)
(Increase) decrease in AOF security lending expense payable	(316,991)	-	(316,991)
Changes in current value of investments managed (Note 2D)	945,558,398	916,313,652	29,244,746
Net asset value/investments managed, end of year	\$ 13,469,961,763	\$ 12,005,017,556	\$ 1,464,944,207
<b>STATEMENT OF INVESTMENT INCOME and DISTRIBUTION</b>			
Net realized gains (Note 2E)	\$ 163,514,964	\$ 11,278,625	\$ 152,236,339
Dividend/interest income (Note 2E)	351,407,967	280,878,955	70,529,012
Amortization/accretion (Note 2E)	97,264,829	95,549,702	1,715,127
Security lending income	26,889,433	17,473,253	9,416,180
Security lending expense	(25,953,789)	(16,631,540)	(9,322,249)
Administrative expenses (Note 2F)	(21,064,451)	(20,288,200)	(776,251)
Other expenses	(873,556)	(873,556)	
Income due participants, beginning of year	22,764,985	22,764,985	
Income available for distribution (Note 2E)	613,950,382	390,152,224	223,798,158
Distribution (Note 2E)	579,659,693	355,861,535	223,798,158
Income due participants, end of year (Note 2E)	\$ 34,290,689	\$ 34,290,689	\$

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**16. SUBSEQUENT EVENTS**

The Federal National Mortgage Association and Federal Home Loan Mortgage Corp. were put into conservatorship on September 7, 2008.

On September 14, 2008, Lehman Brothers filed for Chapter 11 bankruptcy. The Bond Pool and AOF portfolios held a \$15 million position in Lehman Brothers Holdings, Inc., 2.778%, 05/25/2010. The AOF portfolio includes a \$5 million position in Lehman Brothers Holdings, Inc., 5%, 01/14/2011. As of September 30, 2008, the book value of these bond positions was written down to 80% of par. On October 30, 2008, the book value of these bonds was further written down to 65% of par.

On September 16, 2008, the U.S. Government acquired 80% of AIG stock and extended \$85 billion in financing to the company. The loan will be repaid by the sale of AIG assets. The loan is collateralized by all the company's assets, valued at \$1.05 trillion as of June, 30, 2008. The two STIP AIG securities matured on July 21, 2008 and July 30, 2008.

On September 26, 2008, Washington Mutual filed for Chapter 11 bankruptcy. The bonds are now in default following the seizure of the bank by the Office of Thrift Supervision on September 25, 2008. The Bond Pool and AOF portfolios held a \$20 million position in Washington Mutual, Inc. 4.2%, 01/15/2010. On September 26, 2008, the Board sold \$10 million par, at a price of \$38, with an October 1, 2008 settlement date. This sale generated a loss of \$6.2 million. As of September 30, 2008, the book value of the remaining \$10 million bond position was written down to 85% of par. On October 20, 2008, the remaining \$10 million position was sold for a realized loss of \$1,684,700.

On October 30, 2008, the book value of the Galena CDO bonds was written down to 70% of par. The Bond Pool and AOF portfolios hold a \$25 million position in this security.

As of June 30, 2008, \$2,729,889 in accrued interest receivable was recorded in the STIP portfolio for Orion Finance USA and Axon Financial Funding. Refer to Note 6 – Investment Risk Disclosures, page B-25 for additional information. While payment of the Orion Finance USA interest receivable of \$903,922 remains unknown as of November 21, 2008, the Board received payment of \$1,825,967 on the Axon Financial Funding interest receivable on November 14, 2008.

In addition to the above interest receivable payment the Board also received payment of \$10,000,933 in principal and \$1,390,471 in interest compensation in excess of the accrued interest receivable from Axon Financial Funding. The November 14, 2008 Axon Financial Funding payment totaled \$13,217,371.

**17. YEAR END PORTFOLIOS**

The June 30, 2008 portfolios of the Pools and AOF are listed on the following pages. The security type percentage is based on the fair value or the amortized cost ratio of the specific security investment type to the total portfolio.

**RETIREMENT FUNDS BOND POOL**

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
SHORT TERM INVESTMENT POOL	NA	NA	71,764,367	71,764,367	71,764,367	3.60%
<b>Cash Equivalents</b>	<b>1 Issue(s)</b>		<b>71,764,367</b>	<b>71,764,367</b>	<b>71,764,367</b>	<b>3.60%</b>
AA / FT WORTH HQ FIN TR	5.500	10/05/10	3,677,348	3,677,348	3,856,251	0.19%
AOL TIME WARNER INC	6.750	04/15/11	10,000,000	10,259,003	10,203,973	0.51%
ACE INA HLDG INC	5.700	02/15/17	3,000,000	3,009,651	2,943,297	0.15%
AERO 1 HQ FIN TR	4.640	07/07/10	5,745,000	5,745,000	5,870,873	0.29%
AMERICA WEST AIRLS TR	7.930	01/02/19	3,959,008	3,959,008	3,904,135	0.20%
AMERICAN EXPRESS BK	6.000	09/13/17	6,000,000	5,986,475	5,800,994	0.29%
AMERICAN EXPRESS CENTURION BK	4.375	07/30/09	3,000,000	2,972,607	2,971,781	0.15%
AMERICAN GEN FIN CORP MTN	4.625	05/15/09	6,000,000	6,005,002	5,941,343	0.30%
AMERICAN GEN FIN CORP MTN	5.900	09/15/12	6,000,000	5,989,894	5,639,702	0.28%
ANHEUSER BUSCH COS INC	5.600	03/01/17	3,000,000	3,009,909	2,816,761	0.14%
ARIA CDO II JERSEY NO 1 LTD	VAR	10/10/12	25,000,000	25,000,000	24,933,750	1.25%
B J SERVICES	5.750	06/01/11	7,000,000	6,994,631	7,067,030	0.35%

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<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
BANC AMER COML MTG INC COML	5.381	01/15/49	15,000,000	15,054,264	14,722,232	0.74%
BANC AMER COML MTG TR	5.363	07/10/46	3,314,638	3,319,694	3,337,239	0.17%
BANC AMER COML MTG TR	5.185	09/10/47	8,506,790	8,516,714	8,529,398	0.43%
BANC AMER COML MTG TR 2007 2	5.634	04/10/49	9,000,000	9,035,139	8,878,972	0.45%
BANC AMER COML MTG TR	5.838	06/10/49	15,000,000	14,996,045	14,866,850	0.75%
BANC AMER COML MTG TR	5.546	09/10/12	15,000,000	15,067,692	14,759,889	0.74%
BEAR STEARNS COML MTG SECS TR	5.593	06/11/40	9,101,851	9,117,515	9,174,606	0.46%
BELLSOUTH CORP	4.750	11/15/12	2,000,000	1,997,331	1,961,966	0.10%
BELLSOUTH TELECOMM INC	6.300	12/15/15	10,467,400	11,132,748	10,960,253	0.55%
BISHOPSGATE CDO LTD	5.180	06/30/10	25,000,000	25,000,000	23,420,000	1.18%
BURLINGTON NORTHN + SANTA FE	4.575	01/15/21	2,147,148	2,089,828	2,032,591	0.10%
CIT GROUP INC	4.750	08/15/08	2,000,000	1,994,745	1,991,330	0.10%
CIT GROUP INC	5.800	07/28/11	6,000,000	5,997,456	5,070,000	0.25%
CSX CORP	7.900	05/01/17	5,000,000	5,071,886	5,297,892	0.27%
CSX CORP	5.750	03/15/13	9,000,000	8,980,136	8,911,331	0.45%
CVS CAREMARK CORP	5.750	06/01/17	6,000,000	5,908,254	5,863,840	0.29%
CANADIAN NATL RY CO	6.800	07/15/18	6,000,000	5,976,255	6,527,676	0.33%
CANADIAN PAC LTD	9.450	08/01/21	5,000,000	5,107,698	6,072,062	0.30%
CAPITAL ONE BK	5.000	06/15/09	6,000,000	5,997,834	5,978,972	0.30%
CAPITAL ONE FINL CORP	6.750	09/15/17	6,000,000	6,000,606	5,343,865	0.27%
CHICAGO + NORTH WESTERN RY	8.910	01/01/15	6,277,802	6,277,802	6,964,077	0.35%
CITIGROUP INC	6.200	03/15/09	5,000,000	4,975,482	5,052,785	0.25%
COMCAST CORP	7.050	03/15/33	3,000,000	3,252,146	2,989,195	0.15%
COMCAST CORP NEW	5.450	11/15/10	3,000,000	3,004,392	3,047,872	0.15%
COMM MTG TR	5.540	06/10/46	4,362,938	4,366,264	4,398,652	0.22%
CONOCOPHILLIPS CDA FDG CO I	5.625	10/15/16	7,000,000	6,999,536	7,088,281	0.36%
CONTINENTAL AIRLS PASS THRU TR	6.545	08/02/20	5,994,889	5,994,889	5,305,477	0.27%
CORPORATE PPTY INVS	7.875	03/15/16	12,000,000	12,034,250	12,850,541	0.65%
CREDIT SUISSE FIRST BOSTON USA	6.500	01/15/12	10,000,000	10,378,165	10,369,013	0.52%
DOT HEADQUARTERS II LEASE MTG	6.001	12/07/21	30,000,000	30,000,000	30,034,200	1.51%
DEER PARK REFINING L P	6.470	12/15/08	738,800	738,135	748,864	0.04%
DONNELLEY R R + SONS CO	4.950	04/01/14	5,000,000	4,757,750	4,569,133	0.23%
DUN + BRADSTREET CORP DEL NEW	5.500	03/15/11	10,000,000	9,999,188	9,939,494	0.50%
EASTERN ENERGY LTD	7.250	12/01/16	5,000,000	4,962,155	5,891,980	0.30%
EL PASO NAT GAS CO	8.625	01/15/22	5,000,000	5,157,536	5,595,749	0.28%
ENTERGY ARK INC	4.500	06/01/10	7,000,000	6,988,124	6,809,956	0.34%
FPL ENERGY NATL WIND LLC	5.608	03/10/24	2,513,400	2,513,400	2,468,891	0.12%
FIRST CHICAGO CORP	6.375	01/30/09	4,000,000	3,977,518	4,079,378	0.20%
FIRST UN BK N C CHARLOTTE	5.800	12/01/08	6,000,000	5,971,865	6,042,530	0.30%
FLORIDA GAS TRANSMISSION CO	9.190	11/01/24	8,500,000	8,463,020	9,841,433	0.49%
FLORIDA PWR CORP	5.800	09/15/17	2,000,000	2,000,425	2,052,488	0.10%
FORD MTR CR CO	7.375	10/28/09	8,000,000	8,001,731	7,199,430	0.36%
FORTUNE BRANDS INC	5.375	01/15/16	4,000,000	3,981,025	3,705,185	0.19%
GE COML MTG CORP TR	5.417	12/10/49	15,000,000	15,056,546	14,731,629	0.74%
GSPA MONETIZATION TR	6.422	10/09/29	12,984,337	13,093,298	12,987,713	0.65%
GALENA CDO I CAYMAN IS NO 1LTD	VAR	01/11/13	12,000,000	12,000,000	7,681,200	0.39%
GAZPROM INTL S A	7.201	02/01/20	2,568,316	2,613,676	2,564,110	0.13%
GENERAL AMERN TRANSN CORP 94 1	8.420	01/01/15	5,855,184	5,855,184	6,280,571	0.32%
GENERAL ELEC CAP CORP	8.125	05/15/12	5,000,000	5,110,893	5,526,643	0.28%
GENERAL ELEC CAP CORP MTN	5.000	01/08/16	3,000,000	2,985,283	2,867,218	0.14%
GENWORTH FINL INC	5.650	06/15/12	5,000,000	4,998,934	4,755,050	0.24%
GENWORTH GLOBAL FDG TRS SECD	5.125	03/15/11	5,000,000	4,992,372	4,850,530	0.24%
GEORGIA PWR CO	5.250	12/15/15	3,000,000	3,000,134	2,975,747	0.15%

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GOLDMAN SACHS GROUP	5.300	02/14/12	3,000,000	2,997,653	2,976,399	0.15%
GREAT RIV ENERGY	5.829	07/01/17	13,000,000	13,000,000	13,000,177	0.65%
HSBC FIN CORP	5.500	01/19/16	10,000,000	9,965,980	9,563,706	0.48%
HSBC FIN CORP	5.900	06/19/12	5,000,000	4,994,567	5,045,360	0.25%
HAWAIIAN ELEC INDS INC MEDIUM	6.141	08/15/11	3,000,000	3,000,000	3,142,229	0.16%
HONEYWELL INTL INC	5.625	08/01/12	6,000,000	5,990,471	6,217,102	0.31%
ING SEC LIFE INSTL FDG	4.250	01/15/10	7,000,000	6,995,281	6,950,811	0.35%
INTL LEASE FIN CORP MTN	4.550	10/15/09	2,000,000	2,002,030	1,970,315	0.10%
INTERNATIONAL PAPER CO	4.000	04/01/10	4,000,000	4,000,441	3,822,301	0.19%
J P MORGAN CHASE COML MTG	4.555	06/12/41	12,000,000	11,999,893	11,987,838	0.60%
J P MORGAN CHASE COML MTG	3.053	01/15/38	1,353,155	1,350,515	1,337,391	0.07%
JERSEY CENT PWR + LT CO	5.650	06/01/17	5,000,000	4,984,444	4,786,248	0.24%
JOHNSON CTLS INC	5.250	01/15/11	2,000,000	1,990,213	2,005,087	0.10%
KCT INTERMODAL TRANSN CORP	6.884	08/01/18	2,974,133	2,974,133	3,197,981	0.16%
KERR MCGEE CORP	7.125	10/15/27	7,000,000	7,070,856	7,308,512	0.37%
KEYBANK NATL ASSN CLEVELAND OH	5.500	09/17/12	5,000,000	4,999,413	4,544,708	0.23%
KEYBANK NATL ASSN MTN	5.450	03/03/16	10,000,000	9,998,159	7,835,124	0.39%
KRAFT FOODS INC	4.125	11/12/09	2,000,000	1,997,338	1,981,333	0.10%
LEHMAN BROTHERS HLDGS INC	VAR	05/25/10	5,000,000	5,000,000	4,667,823	0.23%
MGIC INVT CORP WI	5.375	11/01/15	10,000,000	9,893,594	6,700,000	0.34%
ML CFC COML MTG TR	5.549	06/12/50	8,568,338	8,581,396	8,643,888	0.43%
MACMILLAN BLOEDEL LTD	7.700	02/15/26	10,000,000	9,864,480	10,892,907	0.55%
MARSH + MCLENNAN COS INC	7.125	06/15/09	7,000,000	6,999,236	7,079,665	0.36%
MCKESSON CORP NEW	5.250	03/01/13	4,000,000	3,986,916	3,912,617	0.20%
MEAD CORP	7.350	03/01/17	11,000,000	10,994,678	12,760,000	0.64%
MED MAP L L C	7.060	06/01/24	8,595,000	8,595,000	9,584,199	0.48%
MED MAP L L C COLO REV	7.000	06/01/24	5,730,000	5,730,000	6,361,962	0.32%
METLIFE INC	5.000	11/24/13	5,000,000	4,974,061	4,863,707	0.24%
METROPOLITAN LIFE GLOBAL MTN	4.250	07/30/09	3,000,000	2,999,677	2,991,798	0.15%
ML CFC COML MTG TR	5.590	09/12/49	15,000,000	15,071,162	14,704,894	0.74%
MOBIL CORP	5.940	01/15/19	7,115,226	7,115,226	7,701,907	0.39%
NATIONAL CITY BK CLEVELAND OH	5.800	06/07/17	5,000,000	4,982,848	3,775,000	0.19%
NEWS AMER INC	6.150	03/01/37	7,000,000	7,078,126	6,387,785	0.32%
NORFOLK SOUTHN CORP	7.700	05/15/17	6,000,000	6,018,411	6,700,816	0.34%
ONEOK PARTERS LP	6.850	10/15/37	3,000,000	3,094,044	2,914,883	0.15%
PPL ELEC UTILS CORP	6.450	08/15/37	3,000,000	2,999,214	2,856,303	0.14%
PPL MONT LLC	8.903	07/02/20	17,512,204	17,567,121	19,046,313	0.96%
PACIFIC BELL	7.250	11/01/27	6,000,000	5,967,382	6,023,760	0.30%
PANAMERICAN BEVERAGES INC	7.250	07/01/09	8,000,000	8,024,396	8,166,555	0.41%
PENNSYLVANIA ELEC CO	6.050	09/01/17	3,000,000	2,991,836	2,911,030	0.15%
PROTECTIVE LIFE SECD TRS SECD	5.450	09/28/12	6,000,000	5,991,397	5,967,918	0.30%
PRUDENTIAL FINL INC	5.500	03/15/16	10,000,000	9,841,994	9,439,221	0.47%
PUBLIC SVC CO COLO	6.250	09/01/37	6,000,000	6,138,000	6,096,813	0.31%
PUGET SOUND PWR + LT CO	5.197	10/01/15	9,000,000	8,850,611	8,667,052	0.44%
RAS LAFFAN LIQUEFIED NAT GAS	5.298	09/30/20	9,000,000	8,538,437	8,325,278	0.42%
RAS LAFFAN LIQUEFIED NAT GAS	6.332	09/30/27	6,000,000	5,882,653	5,625,673	0.28%
SLM CORP	5.125	08/27/12	5,000,000	4,557,547	4,425,000	0.22%
SLM CORP	5.375	01/15/13	5,000,000	4,996,136	4,375,000	0.22%
ST PAUL TRAVELERS COS INC	6.250	06/20/16	2,000,000	2,106,372	2,020,843	0.10%
SEARIVER MARITIME FINL HLDGS	0.000	09/01/12	30,000,000	24,848,303	24,631,204	1.24%
SECURITY CAP GROUP INC	7.700	06/15/28	3,000,000	3,438,946	3,751,841	0.19%
SOUTHERN UN CO NEW	7.600	02/01/24	7,000,000	7,028,458	6,917,811	0.35%
SOUTHWEST GAS CORP	8.375	02/15/11	6,000,000	5,994,412	6,307,208	0.32%



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SOUTHWEST GAS CORP	7.625	05/15/12	5,000,000	5,314,386	5,164,667	0.26%
SOUTHWESTERN BELL TEL CO	7.000	11/15/27	3,000,000	2,997,327	3,047,424	0.15%
SUNCOR ENERGY INC	6.500	06/15/38	3,000,000	3,008,658	2,892,866	0.15%
TTX CO MEDIUM TERM NTS BOOK	6.050	06/15/16	7,500,000	7,488,288	8,181,182	0.41%
TEXAS GAS TRANSMISSION CORP	7.250	07/15/27	3,000,000	2,809,510	3,158,369	0.16%
TIME WARNER INC	6.625	05/15/29	7,000,000	7,213,352	6,406,360	0.32%
TRANSCONTINENTAL GAS PIPE LINE	7.250	12/01/26	3,000,000	3,002,413	3,107,883	0.16%
TRAVELERS COS INC	5.375	06/15/12	3,000,000	2,984,092	2,977,215	0.15%
TRISTATE GEN + TRANS ASSN	6.040	01/31/18	6,639,360	6,687,469	6,502,860	0.33%
ULTRAMAR DIAMOND SHAMROCK CORP	7.200	10/15/17	3,000,000	2,987,123	3,096,007	0.16%
UNION PAC CORP	4.875	01/15/15	3,000,000	2,896,153	2,837,786	0.14%
UNION PAC CORP	6.150	05/01/37	3,000,000	2,818,904	2,797,510	0.14%
UNION PAC RES GROUP INC	7.050	05/15/18	12,000,000	11,951,854	13,372,922	0.67%
UNION PAC RR CO 2007 3 PTHRU	6.176	01/02/31	2,974,986	2,974,986	2,990,213	0.15%
UNION TANK CAR CO	7.450	06/01/09	5,000,000	5,000,000	5,188,255	0.26%
UNITEDHEALTH GROUP INC	4.875	04/01/13	3,000,000	2,884,380	2,875,290	0.14%
VERIZON COMMUNICATIONS INC	5.500	04/01/17	3,000,000	2,981,696	2,892,287	0.15%
VERIZON NORTH INC	5.634	01/01/21	6,000,000	5,799,575	5,356,765	0.27%
VIRGINIA ELEC + PWR CO	5.400	01/15/16	10,000,000	9,951,306	9,768,580	0.49%
WASHOVIA BK NATL ASSN	5.600	03/15/16	10,000,000	9,989,384	9,298,144	0.47%
WASHINGTON MUT INC	4.200	01/15/10	9,000,000	8,995,814	7,920,000	0.40%
WELLPOINT INC	5.875	06/15/17	7,000,000	6,955,082	6,760,178	0.34%
WESTERN PPTYS TR	7.200	09/15/08	3,000,000	2,996,310	3,012,448	0.15%
WESTVACO CORP	7.650	03/15/27	8,113,000	8,086,997	8,062,294	0.40%
WEYERHAEUSER CO	8.500	01/15/25	7,000,000	7,232,659	7,430,546	0.37%
WYNDHAM WORLDWIDE CORP	6.000	12/01/16	6,000,000	5,976,792	5,365,042	0.27%
XANTERRA SOUTH RIM LLC	5.690	12/15/11	10,000,000	10,000,000	10,052,400	0.50%
ZIONS BANCORPORATION	5.650	05/15/14	4,000,000	3,957,767	3,360,951	0.17%
CYPRESSTREE SYNTHETIC CDO LTD	VAR	12/30/10	25,000,000	25,000,000	21,062,500	1.06%
<b>Corporate (Rated)</b>	<b>147 Issue(s)</b>		<b>1,015,790,249</b>	<b>1,011,467,221</b>	<b>996,726,110</b>	<b>50.04%</b>
AMERICAN PRESIDENT COS LTD	8.000	01/15/24	5,000,000	4,791,813	4,587,500	0.23%
KELLWOOD CO	7.625	10/15/17	12,000,000	11,876,626	7,950,000	0.40%
MERIDIAN TRAILER TRAIN	9.850	01/29/10	282,421	282,421	297,452	0.01%
WILMINGTON TR TUCSON ELECTRIC	10.211	01/01/09	175,742	175,742	181,429	0.01%
<b>Corporate (Unrated)</b>	<b>3 Issue(s)</b>		<b>17,458,163</b>	<b>17,126,603</b>	<b>13,016,381</b>	<b>0.65%</b>
ASTRO OFFSHORE CORP	6.000	12/20/19	9,267,000	9,267,000	10,027,821	0.50%
ENSCO OFFSHORE CO	6.360	12/01/15	5,000,263	5,000,263	5,306,229	0.27%
GNMA II POOL 001254	9.500	09/20/19	17,685	17,632	19,722	0.00%
GNMA POOL 046249	10.000	12/15/10	2,461	2,457	2,596	0.00%
GNMA POOL 135544	10.000	01/15/16	26,438	26,363	29,287	0.00%
GLOBAL INDS LTD	7.710	02/15/25	6,800,000	6,800,000	6,723,840	0.34%
TUNISIA REP	6.710	02/01/24	3,559,482	3,422,392	3,559,482	0.18%
UNITED STATES TREAS BDS	4.375	02/15/38	10,000,000	9,640,427	9,743,700	0.49%
UNITED STATES TREAS NTS	4.625	02/15/17	10,000,000	10,815,254	10,524,900	0.53%
UNITED STATES TREAS NTS	4.750	08/15/17	22,000,000	23,715,907	23,303,721	1.17%
UNITED STATES TREAS NTS	2.625	05/31/10	15,000,000	14,940,675	15,010,500	0.75%
UNITED STATES TREAS NTS	3.375	06/30/13	24,000,000	23,698,230	24,037,440	1.21%
VESSEL MGMT SVCS INC	6.080	05/20/24	9,600,000	9,600,000	10,677,216	0.54%
VESSEL MGMT SVCS INC	6.750	06/15/25	7,000,000	7,000,000	8,166,830	0.41%
<b>U.S. Government Direct Obligations</b>	<b>14 Issue(s)</b>		<b>122,273,330</b>	<b>123,946,602</b>	<b>127,133,284</b>	<b>6.38%</b>
FARMER MAC GTD NTS TR	4.875	01/14/11	15,000,000	14,759,216	15,463,452	0.78%
FED HM LN PC POOL G10173	6.000	01/01/09	48,127	48,119	49,326	0.00%
FED HM LN PC POOL G11670	4.000	03/01/15	17,355,607	17,163,181	16,530,542	0.83%



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FED HM LN PC POOL G30006	7.000	07/01/13	159,273	159,796	165,075	0.01%
FED HM LN PC POOL E99081	4.500	09/01/18	13,950,208	13,888,754	13,699,857	0.69%
FED HM LN PC POOL G02070	5.500	03/01/36	23,600,123	23,115,398	23,288,380	1.17%
FED HM LN PC POOL G11994	5.500	05/01/21	20,902,975	20,760,467	21,056,662	1.06%
FED HM LN PC POOL G12369	5.500	10/01/21	15,700,637	15,676,694	15,816,075	0.79%
FED HM LN PC POOL G03037	5.500	07/01/37	27,348,640	27,231,163	26,961,281	1.35%
FED HM LN PC POOL G03458	5.500	11/01/37	27,576,658	27,686,615	27,186,069	1.36%
FED HM LN PC POOL C90973	6.000	06/01/26	18,231,958	18,090,846	18,507,879	0.93%
FEDERAL HOME LN MTG CORP	5.000	06/18/18	15,000,000	15,000,000	14,944,908	0.75%
FEDERAL HOME LN MTG CORP MTN	4.000	06/12/13	13,000,000	12,377,337	12,884,243	0.65%
FED HOME LN MTG CORP MTN	5.125	07/18/18	15,000,000	15,000,000	14,966,748	0.75%
FEDERAL HOME LN MTG CORP	4.500	04/02/14	11,000,000	10,974,687	11,027,070	0.55%
FREDDIE MAC	4.100	01/28/14	35,000,000	35,000,000	35,127,327	1.76%
FEDERAL HOME LOAN MTG CORP	5.000	01/30/14	13,000,000	12,997,603	13,394,254	0.67%
FEDERAL HOME LN MTG CORP	5.300	05/12/20	6,000,000	5,762,520	5,809,417	0.29%
FEDERAL HOME LN MTG CORP	4.825	09/23/15	15,000,000	14,264,588	14,833,893	0.74%
FEDERAL HOME LN MTG CORP	5.550	10/04/16	15,000,000	15,021,129	15,370,431	0.77%
FEDERAL HOME LN MTG CORP	0.000	07/13/37	100,000,000	13,570,146	13,952,400	0.70%
FED HM LN PC POOL C01523	5.000	03/01/33	7,775,085	7,719,031	7,505,897	0.38%
FED HM LN PC POOL E00247	5.500	10/01/08	39,417	39,412	39,704	0.00%
FED HM LN PC POOL E00659	6.000	04/01/14	278,400	278,286	285,932	0.01%
FED HM LN PC POOL E01376	4.000	04/01/18	15,444,274	15,361,996	14,900,027	0.75%
FED HM LN PC POOL E01418	4.000	07/01/18	15,136,868	14,869,262	14,603,455	0.73%
FED HM LN PC POOL E01425	4.500	08/01/18	15,132,285	15,103,418	14,860,720	0.75%
FED HM LN PC POOL B13150	4.000	03/01/19	16,503,761	16,503,761	15,719,192	0.79%
FEDERAL AGRIC MTG CORP MTN	6.710	07/28/14	17,000,000	18,359,905	19,026,769	0.96%
FEDERAL FARM CR BKS CONS	5.450	04/21/20	6,000,000	5,878,156	5,955,769	0.30%
FEDERAL FARM CR BKS	5.200	12/27/12	5,000,000	5,000,000	5,135,779	0.26%
FED HM LN PC POOL G11812	5.000	12/01/20	24,459,005	24,167,175	24,301,763	1.22%
FED HM LN PC POOL G11900	5.500	02/01/21	16,738,067	16,486,786	16,917,639	0.85%
FEDERAL HOME LN BKS	4.250	07/17/13	13,000,000	12,460,108	12,783,908	0.64%
FEDERAL HOME LN BK	7.000	08/26/19	8,000,000	7,981,517	9,385,265	0.47%
FEDERAL HOME LN BKS	7.450	02/03/20	15,000,000	15,071,108	18,201,261	0.91%
FEDERAL HOME LN BKS	4.125	08/13/10	10,000,000	10,043,988	10,146,872	0.51%
FEDERAL HOME LOAN BANK	4.875	05/14/10	15,000,000	14,983,778	15,459,170	0.78%
FEDERAL HOME LN MTG PC GTD	9.300	11/15/20	55,677	54,597	60,208	0.00%
FEDERAL HOME LN MTG CORP	8.250	06/01/26	8,000,000	8,177,650	10,312,248	0.52%
FEDERAL HOME LN MTG CORP	0.000	09/14/29	100,000,000	23,348,572	23,156,200	1.16%
FEDERAL NATL MTG ASSN	5.000	04/26/17	15,000,000	14,603,158	14,814,906	0.74%
FEDERAL NATL MTG ASSN	6.625	11/15/10	5,000,000	5,051,599	5,366,813	0.27%
FEDERAL NATL MTG ASSN	4.500	08/15/08	10,000,000	10,000,000	10,028,348	0.50%
FEDERAL NATL MTG ASSN REMIC	9.500	03/25/20	197,078	195,247	215,776	0.01%
FNMA POOL 256600	5.500	02/01/27	25,368,105	25,389,866	25,240,362	1.27%
FNMA POOL 256083	6.000	01/01/26	16,634,859	16,579,229	16,882,849	0.85%
FNMA POOL 256714	5.500	05/01/27	13,282,816	13,220,172	13,215,929	0.66%
FNMA POOL 303365	6.500	05/01/09	116,554	116,354	121,585	0.01%
FNMA POOL 303125	7.500	01/01/10	41,852	41,824	41,919	0.00%
FNMA POOL 303202	6.500	05/01/14	334,525	332,932	344,447	0.02%
FNMA POOL 303590	7.000	11/01/10	111,397	111,397	113,400	0.01%
FNMA POOL 313999	6.000	02/01/13	333,491	332,727	342,141	0.02%
FNMA POOL 572220	6.000	03/01/16	372,134	371,508	382,334	0.02%
FNMA POOL 592327	5.500	06/01/16	746,135	735,760	758,151	0.04%
FNMA POOL 725346	4.000	03/01/19	16,649,789	16,519,809	16,059,651	0.81%

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**RETIREMENT FUNDS BOND POOL**

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
FNMA POOL 745250	5.000	01/01/21	20,916,965	20,840,039	20,791,770	1.04%
FNMA POOL 745454	4.000	12/01/20	7,644,085	7,306,116	7,278,852	0.37%
FNMA POOL 745515	5.000	05/01/36	18,657,225	17,721,448	17,941,557	0.90%
FNMA POOL 780956	4.500	05/01/19	11,234,954	11,232,364	10,994,985	0.55%
FNMA POOL 899502	5.000	05/01/37	10,822,059	10,818,721	10,375,275	0.52%
FNMA POOL 982043	6.000	05/01/38	20,036,606	20,092,959	20,226,684	1.02%
TENNESSEE VALLEY AUTH	4.875	12/15/16	5,000,000	4,894,307	5,087,385	0.26%
U S ARMY HOSPITALITY CASH MGT FD	7.467	05/01/32	13,978,778	13,978,778	16,642,993	0.84%
<b>U.S. Government Agency</b>	<b>64 Issue(s)</b>		<b>938,916,451</b>	<b>770,923,080</b>	<b>783,061,173</b>	<b>39.32%</b>
<b>RFBP TOTAL</b>	<b>229 Issue(s)</b>		<b>2,166,202,560</b>	<b>1,995,227,873</b>	<b>1,991,701,315</b>	<b>100.00%</b>

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**STATE OF MONTANA BOARD OF INVESTMENTS**  
**CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT**

<b>TRUST FUNDS BOND POOL</b>						
<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
SHORT TERM INVESTMENT POOL	NA	NA	45,017,942	45,017,942	45,017,942	2.91%
<b>Cash Equivalents</b>	<b>1 Issue(s)</b>		<b>45,017,942</b>	<b>45,017,942</b>	<b>45,017,942</b>	<b>2.91%</b>
AA / FT WORTH HQ FIN TR	5.500	10/05/10	4,780,553	4,780,553	5,013,127	0.32%
AOL TIME WARNER INC	6.750	04/15/11	5,000,000	5,129,502	5,101,987	0.33%
ACE INA HLDG INC	5.700	02/15/17	2,000,000	2,000,232	1,962,198	0.13%
AERO 1 HQ FIN TR	4.640	07/07/10	9,255,000	9,255,000	9,457,777	0.61%
AMERICA WEST AIRLS TR	7.930	01/02/19	2,639,339	2,639,339	2,602,757	0.17%
AMERICAN EXPRESS BK	6.000	09/13/17	4,000,000	3,990,983	3,867,329	0.25%
AMERICAN EXPRESS CENTURION BK	4.375	07/30/09	2,000,000	1,981,738	1,981,188	0.13%
AMERICAN GEN FIN CORP MTN	4.625	05/15/09	4,000,000	4,003,335	3,960,896	0.26%
AMERICAN GEN FIN CORP MTN	5.900	09/15/12	4,000,000	3,993,262	3,759,802	0.24%
ANHEUSER BUSCH COS INC	5.600	03/01/17	2,000,000	2,006,606	1,877,841	0.12%
B J SERVICES	5.750	06/01/11	5,000,000	4,996,165	5,047,879	0.33%
BANC AMER COML MTG INC COML	5.381	01/15/49	10,000,000	10,036,176	9,814,821	0.63%
BANC AMER COML MTG TR	5.363	07/10/46	2,485,979	2,489,771	2,502,929	0.16%
BANC AMER COML MTG TR	5.185	09/10/47	5,104,074	5,110,028	5,117,639	0.33%
BANC AMER COML MTG TR 2007 2	5.634	04/10/49	6,000,000	6,023,426	5,919,315	0.38%
BANC AMER COML MTG TR	5.838	06/10/49	10,000,000	9,997,364	9,911,234	0.64%
BANC AMER COML MTG TR	5.546	09/10/12	5,000,000	5,022,564	4,919,963	0.32%
BANK AMER CORP	5.375	08/15/11	5,000,000	4,988,113	5,040,229	0.33%
BEAR STEARNS COML MTG SECS TR	5.593	06/11/40	4,550,925	4,558,758	4,587,303	0.30%
BELLSOUTH CORP	4.750	11/15/12	3,000,000	2,995,997	2,942,948	0.19%
BELLSOUTH TELECOMM INC	6.300	12/15/15	7,850,550	8,349,561	8,220,190	0.53%
BISHOPSGATE CDO LTD	5.180	06/30/10	10,000,000	10,000,000	9,368,000	0.61%
BURLINGTON NORTHN SANTA FE RY	7.160	01/02/20	11,322,293	11,322,293	12,068,301	0.78%
BURLINGTON NORTHN + SANTA FE	4.575	01/15/21	2,147,148	2,089,828	2,032,591	0.13%
CIT GROUP EQUIP FING INC	6.490	01/05/21	8,779,780	8,779,780	7,983,019	0.52%
CIT GROUP INC	4.750	08/15/08	2,600,000	2,593,169	2,588,728	0.17%
CIT GROUP INC	5.800	07/28/11	4,000,000	3,998,304	3,380,000	0.22%
CSX CORP	7.900	05/01/17	5,000,000	5,071,886	5,297,892	0.34%
CSX CORP	5.750	03/15/13	6,000,000	5,986,757	5,940,887	0.38%
CVS CAREMARK CORP	5.750	06/01/17	4,000,000	3,880,039	3,909,226	0.25%
CANADIAN NATL RY CO	6.800	07/15/18	4,000,000	3,986,268	4,351,784	0.28%
CAPITAL ONE BK	5.000	06/15/09	4,000,000	3,998,556	3,985,981	0.26%
CAPITAL ONE FINL CORP	6.750	09/15/17	4,000,000	4,000,404	3,562,577	0.23%
CHICAGO + NORTH WESTERN RY	8.910	01/01/15	3,138,901	3,138,901	3,482,038	0.23%
CITIGROUP INC	6.200	03/15/09	5,000,000	4,975,482	5,052,785	0.33%
CITIGROUP INC	5.500	04/11/13	5,000,000	5,017,766	4,878,608	0.32%
COMCAST CORP	7.050	03/15/33	2,000,000	2,168,097	1,992,797	0.13%
COMCAST CORP NEW	5.450	11/15/10	2,000,000	2,002,928	2,031,915	0.13%
COMM MTG TR	5.540	06/10/46	2,726,836	2,728,915	2,749,157	0.18%
CONOCOPHILLIPS CDA FDG CO I	5.625	10/15/16	7,000,000	6,999,536	7,088,281	0.46%
CONTINENTAL AIRLS PASS THRU TR	6.545	08/02/20	5,245,528	5,245,528	4,642,292	0.30%
CORPORATE PPTY INVS	7.875	03/15/16	3,000,000	2,995,973	3,212,635	0.21%
CREDIT SUISSE FIRST BOSTON USA	6.500	01/15/12	5,000,000	5,189,083	5,184,507	0.34%
DOT HEADQUARTERS II LEASE MTG	6.001	12/07/21	20,000,000	20,000,000	20,022,800	1.30%
DEER PARK REFINING L P	6.470	12/15/08	369,400	368,957	374,432	0.02%
DONNELLEY R R + SONS CO	4.950	04/01/14	5,000,000	4,757,750	4,569,133	0.30%
DUN + BRADSTREET CORP DEL NEW	5.500	03/15/11	5,000,000	5,001,405	4,969,747	0.32%
EASTERN ENERGY LTD	7.250	12/01/16	10,000,000	9,924,310	11,783,959	0.76%

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<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
ENTERGY ARK INC	4.500	06/01/10	5,000,000	4,991,517	4,864,254	0.31%
FIRST CHICAGO CORP	6.375	01/30/09	4,000,000	3,977,518	4,079,378	0.26%
FIRST UN BK N C CHARLOTTE	5.800	12/01/08	4,000,000	3,981,243	4,028,354	0.26%
FLORIDA GAS TRANSMISSION CO	9.190	11/01/24	4,250,000	4,250,000	4,920,716	0.32%
FLORIDA GAS TRANSMISSION CO	7.000	07/17/12	3,000,000	2,998,241	3,162,758	0.20%
FLORIDA PWR CORP	5.800	09/15/17	1,000,000	997,522	1,026,244	0.07%
FORD MTR CR CO	7.375	10/28/09	7,000,000	7,001,514	6,299,502	0.41%
FORTUNE BRANDS INC	5.375	01/15/16	3,000,000	2,985,768	2,778,888	0.18%
GE COML MTG CORP TR	5.417	12/10/49	10,000,000	10,037,697	9,821,086	0.64%
GSPA MONETIZATION TR	6.422	10/09/29	11,985,542	12,086,121	11,988,658	0.78%
GALENA CDO I CAYMAN IS NO 1LTD	VAR	01/11/13	9,000,000	9,000,000	5,760,900	0.37%
GAZPROM INTL S A	7.201	02/01/20	1,712,210	1,742,451	1,709,407	0.11%
GENERAL AMERN TRANSN CORP 94 1	8.420	01/01/15	5,855,184	5,855,184	6,280,571	0.41%
GENERAL ELEC CAP CORP MTN	5.000	12/01/10	10,000,000	10,398,906	10,209,747	0.66%
GENERAL ELEC CAP CORP MTN	4.800	05/01/13	5,000,000	4,989,954	4,916,951	0.32%
GENERAL ELEC CAP CORP MTN	5.000	11/15/11	10,000,000	10,312,596	10,079,344	0.65%
GENERAL ELEC CAP CORP MTN	5.000	01/08/16	2,000,000	1,990,189	1,911,479	0.12%
GENWORTH GLOBAL FDG TRS SECD	5.125	03/15/11	5,000,000	4,992,372	4,850,530	0.31%
GEORGIA PWR CO	5.250	12/15/15	2,000,000	2,000,089	1,983,831	0.13%
GOLDMAN SACHS GROUP	5.300	02/14/12	2,000,000	1,998,435	1,984,266	0.13%
GREAT RIV ENERGY	5.829	07/01/17	7,000,000	7,000,000	7,000,095	0.45%
HSBC FIN CORP	5.500	01/19/16	5,000,000	4,982,990	4,781,853	0.31%
HSBC FIN CORP	5.900	06/19/12	5,000,000	4,994,567	5,045,360	0.33%
HANCOCK JOHN GLOBAL FDG II MTN	7.900	07/02/10	10,000,000	10,726,694	10,710,590	0.69%
HAWAIIAN ELEC INDS INC MEDIUM	6.141	08/15/11	4,000,000	4,000,000	4,189,639	0.27%
HONEYWELL INTL INC	5.625	08/01/12	4,000,000	3,993,648	4,144,734	0.27%
ING SEC LIFE INSTL FDG	4.250	01/15/10	5,000,000	4,996,629	4,964,865	0.32%
INTL LEASE FIN CORP MTN	4.550	10/15/09	3,000,000	3,003,045	2,955,472	0.19%
INTERNATIONAL PAPER CO	4.000	04/01/10	6,000,000	5,999,936	5,733,452	0.37%
J P MORGAN CHASE COML MTG	4.555	06/12/41	8,000,000	7,999,929	7,991,892	0.52%
J P MORGAN CHASE COML MTG	3.053	01/15/38	4,059,465	4,052,048	4,012,172	0.26%
JP MORGAN CHASE	5.279	12/12/43	8,367,366	8,378,218	8,391,885	0.54%
JERSEY CENT PWR + LT CO	5.650	06/01/17	4,000,000	3,987,555	3,828,998	0.25%
KCT INTERMODAL TRANSN CORP	6.884	08/01/18	1,487,067	1,487,067	1,598,990	0.10%
KERR MCGEE CORP	7.125	10/15/27	3,000,000	3,030,367	3,132,219	0.20%
KEYBANK NATL ASSN CLEVELAND OH	5.500	09/17/12	5,000,000	4,999,413	4,544,708	0.29%
KEYBANK NATL ASSN MTN	5.450	03/03/16	5,000,000	4,999,080	3,917,562	0.25%
LEHMAN BROTHERS HLDGS INC	VAR	05/25/10	5,000,000	5,000,000	4,667,823	0.30%
MGIC INVT CORP WI	5.375	11/01/15	5,000,000	4,946,797	3,350,000	0.22%
ML CFC COML MTG TR	5.549	06/12/50	4,284,169	4,290,698	4,321,944	0.28%
MACMILLAN BLOEDEL LTD	7.700	02/15/26	5,000,000	4,912,818	5,446,454	0.35%
MARSH + MCLENNAN COS INC	7.125	06/15/09	5,000,000	5,011,648	5,056,904	0.33%
MCKESSON CORP NEW	5.250	03/01/13	3,000,000	2,990,187	2,934,463	0.19%
MEAD CORP	7.350	03/01/17	4,000,000	3,998,065	4,640,000	0.30%
MED MAP L L C	7.060	06/01/24	4,005,000	4,005,000	4,465,935	0.29%
MED MAP L L C COLO REV	7.000	06/01/24	4,405,000	4,405,000	4,890,827	0.32%
MELLON FDG CORP	VAR	05/15/14	5,000,000	5,000,000	4,788,073	0.31%
METLIFE INC	5.000	11/24/13	5,000,000	4,974,061	4,863,707	0.31%
METROPOLITAN LIFE GLOBAL MTN	4.250	07/30/09	2,000,000	1,999,785	1,994,532	0.13%
MOBIL CORP	5.940	01/15/19	7,115,226	7,115,226	7,701,907	0.50%
MORGAN STANLEY GROUP INC	6.750	04/15/11	10,000,000	10,314,722	10,139,980	0.66%
NEWS AMER INC	6.150	03/01/37	3,000,000	3,033,483	2,737,622	0.18%

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<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
NORFOLK SOUTHN CORP	7.700	05/15/17	4,000,000	4,008,717	4,467,211	0.29%
ONEOK PARTERS LP	6.850	10/15/37	2,000,000	2,062,696	1,943,256	0.13%
PPL ELEC UTILS CORP	6.450	08/15/37	2,000,000	1,999,476	1,904,202	0.12%
PPL MONT LLC	8.903	07/02/20	17,512,204	17,567,121	19,046,313	1.23%
PACIFIC BELL	7.250	11/01/27	4,000,000	3,978,255	4,015,840	0.26%
PACIFIC LIFE GLOBAL FDG	5.150	04/15/13	3,000,000	2,998,621	2,896,265	0.19%
PANAMERICAN BEVERAGES INC	7.250	07/01/09	8,000,000	8,012,359	8,166,555	0.53%
PENNSYLVANIA ELEC CO	6.050	09/01/17	2,000,000	1,994,557	1,940,686	0.13%
PROTECTIVE LIFE SECD TRS SECD	5.450	09/28/12	4,000,000	3,994,265	3,978,612	0.26%
PRUDENTIAL FINL INC	5.500	03/15/16	5,000,000	4,920,997	4,719,611	0.31%
PUBLIC SVC CO COLO	6.250	09/01/37	4,000,000	4,092,000	4,064,542	0.26%
PUGET SOUND PWR + LT CO	5.197	10/01/15	6,000,000	5,900,407	5,778,035	0.37%
RAS LAFFAN LIQUEFIED NAT GAS	5.298	09/30/20	6,000,000	5,692,291	5,550,185	0.36%
RAS LAFFAN LIQUEFIED NAT GAS	6.332	09/30/27	4,000,000	3,921,769	3,750,449	0.24%
SLM CORP	5.125	08/27/12	2,000,000	1,823,019	1,770,000	0.11%
SLM CORP	5.375	01/15/13	3,000,000	2,997,681	2,625,000	0.17%
ST PAUL TRAVELERS COS INC	6.250	06/20/16	3,000,000	3,159,558	3,031,265	0.20%
SAN DIEGO GAS + ELEC CO	6.125	09/15/37	1,000,000	996,961	992,520	0.06%
SEARIVER MARITIME FINL HLDGS	0.000	09/01/12	20,000,000	16,564,695	16,420,802	1.06%
SECURITY CAP GROUP INC	7.700	06/15/28	2,000,000	2,292,631	2,501,227	0.16%
SOUTHERN UN CO NEW	7.600	02/01/24	8,000,000	7,543,545	7,906,070	0.51%
SOUTHWEST GAS CORP	8.375	02/15/11	8,000,000	8,003,157	8,409,611	0.54%
SOUTHWESTERN BELL TEL CO	7.000	11/15/27	2,000,000	1,998,218	2,031,616	0.13%
SUNCOR ENERGY INC	6.500	06/15/38	2,000,000	2,005,772	1,928,578	0.12%
TTX CO MEDIUM TERM NTS BOOK	6.050	06/15/16	5,000,000	4,992,192	5,454,122	0.35%
TEXAS GAS TRANSMISSION CORP	7.250	07/15/27	2,000,000	1,873,007	2,105,579	0.14%
TIME WARNER INC	6.625	05/15/29	3,000,000	3,091,436	2,745,583	0.18%
TRANSCONTINENTAL GAS PIPE LINE	7.250	12/01/26	2,000,000	2,009,000	2,071,922	0.13%
TRAVELERS COS INC	5.375	06/15/12	2,000,000	1,987,869	1,984,810	0.13%
TRAVELERS LIFE ANNUITY GLOBAL	4.250	10/01/10	10,000,000	10,039,907	9,716,060	0.63%
TRISTATE GEN + TRANS ASSN	6.040	01/31/18	5,809,440	5,841,513	5,690,003	0.37%
USX MARATHON GROUP	9.375	02/15/12	5,000,000	5,509,611	5,703,543	0.37%
ULTRAMAR DIAMOND SHAMROCK CORP	7.200	10/15/17	2,000,000	1,991,415	2,064,005	0.13%
UNION PAC CORP	6.150	05/01/37	2,000,000	1,879,269	1,865,007	0.12%
UNION PAC RES GROUP INC	7.050	05/15/18	6,000,000	5,957,876	6,686,461	0.43%
UNION PAC RR CO 2007 3 PTHRU	6.176	01/02/31	1,983,324	1,983,324	1,993,475	0.13%
UNION TANK CAR CO	7.450	06/01/09	5,000,000	5,000,000	5,188,255	0.34%
UNITEDHEALTH GROUP INC	4.875	04/01/13	2,000,000	1,922,920	1,916,860	0.12%
VERIZON COMMUNICATIONS INC	5.500	04/01/17	2,000,000	1,987,797	1,928,192	0.12%
VERIZON NORTH INC	5.634	01/01/21	3,000,000	2,899,788	2,678,383	0.17%
VIRGINIA ELEC + PWR CO	5.400	01/15/16	5,000,000	4,975,653	4,884,290	0.32%
WASHOVIA BK NATL ASSN	5.600	03/15/16	5,000,000	4,994,692	4,649,072	0.30%
WASHINGTON MUT INC	4.200	01/15/10	6,000,000	5,997,209	5,280,000	0.34%
WELLPOINT INC	5.875	06/15/17	3,000,000	2,980,749	2,897,219	0.19%
WESTERN PPTYS TR	7.200	09/15/08	1,000,000	998,770	1,004,149	0.06%
WESTVACO CORP	7.650	03/15/27	5,400,000	5,382,693	5,366,250	0.35%
WEYERHAEUSER CO	8.500	01/15/25	8,000,000	9,001,994	8,492,052	0.55%
XANTERRA SOUTH RIM LLC	5.690	12/15/11	8,000,000	8,000,000	8,041,920	0.52%
ZIONS BANCORPORATION	5.650	05/15/14	3,000,000	2,968,325	2,520,713	0.16%
CYPRESSTREE SYNTHETIC CDO LTD	4.746	12/30/10	15,000,000	15,000,000	12,637,500	0.82%

Corporate (Rated)	150 Issue(s)		756,227,502	755,582,157	747,118,821	48.33%
KELLWOOD CO	7.625	10/15/17	8,000,000	7,943,836	5,300,000	0.34%

**STATE OF MONTANA BOARD OF INVESTMENTS**  
**CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT**

**TRUST FUNDS BOND POOL**

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
WILMINGTON TR TUCSON ELECTRIC	10.211	01/01/09	87,871	87,871	90,715	0.01%
<b>Corporate (Unrated)</b>	<b>1 Issue(s)</b>		<b>8,087,871</b>	<b>8,031,707</b>	<b>5,390,715</b>	<b>0.35%</b>
MONTANA ST BRD HSG	8.450	08/01/39	1,120,000	1,120,000	1,125,555	0.07%
<b>Municipal Government Bonds</b>	<b>1 Issue(s)</b>		<b>1,120,000</b>	<b>1,120,000</b>	<b>1,125,555</b>	<b>0.07%</b>
CRP	32 Issue(s)		1,508,366	1,508,366	1,508,366	0.10%
<b>Municipal Government Bonds(Unrated)</b>	<b>32 Issue(s)</b>		<b>1,508,366</b>	<b>1,508,366</b>	<b>1,508,366</b>	<b>0.10%</b>
GNMA POOL 032974	9.500	09/15/09	4,832	4,786	4,917	0.00%
GNMA POOL 038164	10.000	01/15/10	15,259	15,248	15,795	0.00%
GNMA POOL 039321	10.000	12/15/09	5,865	5,861	6,057	0.00%
GNMA POOL 281467	9.000	09/15/19	6,534	6,516	7,154	0.00%
GLOBAL INDS LTD	7.710	02/15/25	6,800,000	6,800,000	6,723,840	0.43%
REINAUER MARITIME CO LLC	6.500	06/30/28	16,480,000	16,480,000	18,373,387	1.19%
T T BARGE SERVICES	6.450	12/16/12	917,100	917,100	980,343	0.06%
TUNISIA REP	6.710	02/01/24	3,559,482	3,422,392	3,559,482	0.23%
UNITED STATES TREAS NTS	4.625	02/15/17	8,000,000	8,487,090	8,419,920	0.54%
UNITED STATES TREAS NTS	4.750	08/15/17	23,000,000	24,898,384	24,362,981	1.58%
UNITED STATES TREAS NTS	3.125	04/30/13	10,000,000	10,020,400	9,914,300	0.64%
UNITED STATES TREAS NTS	2.625	05/31/10	11,500,000	11,420,839	11,508,050	0.74%
UNITED STATES TREAS NTS	3.375	06/30/13	12,000,000	11,849,115	12,018,720	0.78%
VESSEL MGMT SVCS INC	6.080	05/20/24	15,472,000	15,472,000	17,208,113	1.11%
<b>U.S. Government Direct Obligations</b>	<b>14 Issue(s)</b>		<b>107,761,072</b>	<b>109,799,731</b>	<b>113,103,058</b>	<b>7.32%</b>
FARMER MAC GTD NTS TR	4.875	01/14/11	10,000,000	9,839,478	10,308,968	0.67%
FED HM LN PC POOL G10814	5.500	05/01/13	258,093	257,999	262,317	0.02%
FED HM LN PC POOL G10173	6.000	01/01/09	20,626	20,622	21,140	0.00%
FED HM LN PC POOL G11670	4.000	03/01/15	7,438,117	7,355,649	7,084,518	0.46%
FED HM LN PC POOL G30006	7.000	07/01/13	125,143	125,142	129,702	0.01%
FED HM LN PC POOL E99081	4.500	09/01/18	10,960,878	10,912,592	10,764,173	0.70%
FED HM LN PC POOL G02070	5.500	03/01/36	15,733,415	15,410,265	15,525,587	1.00%
FED HM LN PC POOL G11994	5.500	05/01/21	13,935,316	13,840,311	14,037,774	0.91%
FED HM LN PC POOL G12369	5.500	10/01/21	12,845,976	12,826,386	12,940,425	0.84%
FED HM LN PC POOL G03037	5.500	07/01/37	18,232,426	18,154,109	17,974,187	1.16%
FED HM LN PC POOL G03458	5.500	11/01/37	18,384,439	18,457,743	18,124,046	1.17%
FED HM LN PC POOL C90973	6.000	06/01/26	18,231,958	18,090,846	18,507,879	1.20%
FEDERAL HOME LN MTG CORP	5.000	06/18/18	20,000,000	20,000,000	19,926,544	1.29%
FEDERAL HOME LN MTG CORP MTN	4.000	06/12/13	12,000,000	11,425,235	11,893,147	0.77%
FED HOME LN MTG CORP MTN	5.125	07/18/18	15,000,000	15,000,000	14,966,748	0.97%
FEDERAL HOME LN MTG CORP	4.500	04/02/14	9,000,000	8,979,289	9,022,148	0.58%
FREDDIE MAC	4.100	01/28/14	30,000,000	30,000,000	30,109,137	1.95%
FEDERAL HOME LOAN MTG CORP	5.000	01/30/14	12,000,000	11,997,788	12,363,926	0.80%
FEDERAL HOME LN MTG CORP	5.300	05/12/20	3,000,000	2,881,260	2,904,709	0.19%
FEDERAL HOME LN MTG CORP	4.825	09/23/15	10,000,000	9,509,725	9,889,262	0.64%
FEDERAL HOME LN MTG CORP	5.550	10/04/16	10,000,000	10,014,086	10,246,954	0.66%
FEDERAL HOME LN MTG CORP	0.000	07/13/37	100,000,000	13,570,146	13,952,400	0.90%
FEDERAL HOME LN MTG PC GTD	9.150	10/15/20	47,199	46,806	48,351	0.00%
FED HM LN PC POOL C01523	5.000	03/01/33	5,183,390	5,146,021	5,003,931	0.32%
FED HM LN PC POOL E00247	5.500	10/01/08	16,530	16,527	16,650	0.00%
FED HM LN PC POOL E00659	6.000	04/01/14	389,760	389,600	400,305	0.03%
FED HM LN PC POOL E01376	4.000	04/01/18	10,296,182	10,241,330	9,933,351	0.64%
FED HM LN PC POOL E01418	4.000	07/01/18	10,091,246	9,834,917	9,735,636	0.63%
FED HM LN PC POOL E01425	4.500	08/01/18	10,088,190	10,068,946	9,907,147	0.64%
FED HM LN PC POOL B13150	4.000	03/01/19	11,002,507	11,002,507	10,479,461	0.68%
FEDERAL AGRIC MTG CORP MTN	6.710	07/28/14	8,000,000	8,639,955	8,953,774	0.58%

**STATE OF MONTANA BOARD OF INVESTMENTS  
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**TRUST FUNDS BOND POOL**

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
FEDERAL FARM CR BKS CONS	5.450	04/21/20	3,000,000	2,939,078	2,977,884	0.19%
FEDERAL FARM CR BKS	5.200	12/27/12	4,000,000	4,000,000	4,108,623	0.27%
FED HM LN PC POOL G11812	5.000	12/01/20	10,482,431	10,357,361	10,415,041	0.67%
FED HM LN PC POOL G11900	5.500	02/01/21	13,390,453	13,189,429	13,534,111	0.88%
FEDERAL HOME LN BKS	4.250	07/17/13	7,000,000	6,709,289	6,883,643	0.45%
FEDERAL HOME LN BK	7.000	08/26/19	7,000,000	6,972,699	8,212,107	0.53%
FEDERAL HOME LN BKS	7.450	02/03/20	10,000,000	10,047,405	12,134,174	0.78%
FEDERAL HOME LN BKS	4.125	08/13/10	5,000,000	5,021,994	5,073,436	0.33%
FEDERAL HOME LOAN BANK	4.875	05/14/10	5,000,000	4,994,593	5,153,057	0.33%
FEDERAL HOME LN MTG CORP	8.250	06/01/26	7,000,000	7,155,444	9,023,217	0.58%
FEDERAL HOME LN MTG CORP	0.000	09/14/29	100,000,000	23,348,576	23,156,200	1.50%
FEDERAL NATL MTG ASSN	5.000	04/26/17	10,000,000	9,735,439	9,876,604	0.64%
FEDERAL NATL MTG ASSN	4.500	08/15/08	10,000,000	10,000,000	10,028,348	0.65%
FEDERAL NATL MTG ASSOC	0.000	07/30/37	100,000,000	13,525,885	13,868,700	0.90%
FNMA POOL 254233	5.000	03/01/17	3,685,083	3,607,008	3,694,702	0.24%
FNMA POOL 254631	5.000	02/01/18	4,644,455	4,633,012	4,648,052	0.30%
FNMA POOL 256600	5.500	02/01/27	16,912,070	16,926,577	16,826,908	1.09%
FNMA POOL 256083	6.000	01/01/26	16,634,859	16,579,229	16,882,849	1.09%
FNMA POOL 256714	5.500	05/01/27	17,710,422	17,628,202	17,621,239	1.14%
FNMA POOL 303202	6.500	05/01/14	501,786	499,400	516,670	0.03%
FNMA POOL 313999	6.000	02/01/13	166,746	166,364	171,071	0.01%
FNMA POOL 572220	6.000	03/01/16	372,134	371,508	382,334	0.02%
FNMA POOL 592327	5.500	06/01/16	573,950	565,969	583,193	0.04%
FNMA POOL 725232	5.000	03/01/34	29,083,860	27,589,013	28,063,292	1.82%
FNMA POOL 725346	4.000	03/01/19	11,099,859	11,013,206	10,706,434	0.69%
FNMA POOL 745250	5.000	01/01/21	13,944,644	13,893,360	13,861,180	0.90%
FNMA POOL 745454	4.000	12/01/20	7,644,085	7,306,116	7,278,852	0.47%
FNMA POOL 745515	5.000	05/01/36	16,462,186	15,636,505	15,830,718	1.02%
FNMA POOL 780956	4.500	05/01/19	5,617,477	5,616,182	5,497,492	0.36%
FNMA POOL 899502	5.000	05/01/37	8,939,962	8,937,205	8,570,879	0.55%
FNMA POOL 933853	6.000	05/01/38	15,337,726	15,390,449	15,483,227	1.00%
TENNESSEE VALLEY AUTH	4.875	12/15/16	5,000,000	4,894,307	5,087,385	0.33%
U S ARMY HOSPITALITY CASH MGT FD	7.467	05/01/32	9,319,185	9,319,185	11,095,329	0.72%
<b>U.S. Government Agencies</b>	<b>64 Issue(s)</b>		<b>877,804,764</b>	<b>622,625,270</b>	<b>632,681,246</b>	<b>40.93%</b>
<b>TFBP Total</b>	<b>264 Issue(s)</b>		<b>1,797,527,516</b>	<b>1,543,685,172</b>	<b>1,545,945,703</b>	<b>100.00%</b>

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**STATE OF MONTANA BOARD OF INVESTMENTS  
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT**

**MONTANA DOMESTIC EQUITY POOL (MDEP) BY MANAGER**

<u>Manager</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
BGI EQUITY INDEX FUND	2,011,847	605,035,430	744,236,640	25.10%
BGI MIDCAP EQUITY INDEX FUND	1,021,487	17,955,912	21,559,922	0.73%
DIMENSIONAL FUND ADVISORS INC	52,279	35,190,238	53,150,403	1.79%
GOLDMAN SACHS ENHANCED LARGE	9,330,103	125,956,387	126,422,892	4.26%
STATE STREET SPIF ALT INV	106,387	20,211,621	18,579,258	0.63%
WESTERN ASSET US INDX PLUS LLC	<u>13,632,891</u>	<u>206,937,301</u>	<u>164,767,126</u>	<u>5.56%</u>
<b>Total Commingled Accounts</b>	<u>26,154,994</u>	<u>1,011,286,889</u>	<u>1,128,716,241</u>	<u>38.06%</u>
T ROWE PRICE - 299 Issues	6,011,481	213,460,883	199,642,816	6.73%
JP MORGAN INVESTMENTS - 223 Issues	4,973,814	194,618,726	187,918,039	6.34%
INTECH - 373 Issues	5,892,731	192,240,886	183,071,350	6.17%
BARROW HANLEY MEWHINNEY - 87 Issues	10,084,703	215,683,609	181,886,892	6.13%
COLUMBUS CIRCLE - 53 Issues	7,896,183	137,892,186	148,403,430	5.00%
RENAISSANCE INVESTMENTS - 56 Issues	4,672,155	147,953,437	145,212,364	4.90%
RAINIER INVESTMENTS - 72 Issues	7,378,954	145,385,634	144,401,083	4.87%
QUANTITATIVE MANAGEMENT - 131 Issues	4,508,061	150,174,563	122,804,963	4.14%
ANALYTICS INVESTMENTS - 303 Issues	3,864,779	120,060,936	113,638,940	3.83%
MARTINGALE - 150 Issues	3,790,603	106,875,012	105,838,593	3.57%
MARTINGALE INVESTMENTS - 275 Issues	2,089,315	78,381,026	78,636,978	2.65%
TIMESSQUARE - 73 Issues	5,207,717	79,962,897	76,518,755	2.58%
ARTISAN - 51 Issues	4,238,014	64,638,705	61,286,655	2.07%
VAUGHAN NELSON - 71 Issues	3,768,264	46,455,456	46,534,380	1.57%
NORTHPOINTE - 79 Issues	<u>3,244,525</u>	<u>44,680,045</u>	<u>41,099,668</u>	<u>1.39%</u>
<b>TOTAL - 2302 Issues</b>	<u><b>103,776,293</b></u>	<u><b>2,949,750,890</b></u>	<u><b>2,965,611,148</b></u>	<u><b>100.00%</b></u>

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**STATE OF MONTANA BOARD OF INVESTMENTS  
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**MONTANA INTERNATIONAL STOCK POOL (MTIP) BY MANAGER**

<u>Manager</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
BGI MSCI EQUITY INDEX FD EUROP	10,300,478	93,208,727	155,043,812	10.78%
BGI GLOBAL EX US ALPHA TILT FD	5,048,801	101,210,818	117,096,633	8.15%
AXA ROSENBERG INTL SMALL CAP	2,564,174	46,908,465	49,747,613	3.46%
DFA INTL SMALL CO PORTFOLIO	3,352,447	50,564,305	57,159,226	3.98%
EAFE STOCK PERFORMANCE INDEX	723,455	19,659,934	20,458,585	1.42%
<b>Total Commingled Accounts</b>	<b>21,989,355</b>	<b>311,552,249</b>	<b>399,505,869</b>	<b>27.79%</b>
BATTERYMARCH - 231 Issues	13,642,017	175,977,111	185,361,157	12.89%
JULIUS BAER - 278 Issues	11,144,279	164,432,875	177,424,433	12.34%
ACADIAN - 264 Issues	21,777,050	152,437,320	140,736,998	9.79%
BERNSTEIN - 120 Issues	8,110,175	133,105,855	132,663,630	9.23%
MARTIN CURRIE - 50 Issues	10,008,125	131,566,712	126,424,143	8.79%
HANSBERGER - 73 Issues	8,252,488	110,518,048	118,230,800	8.22%
NOMURA - 211 Issues	21,227,990	78,056,164	88,971,518	6.19%
PRINCIPAL - 200 Issues	5,085,601	62,663,371	68,322,320	4.75%
<b>TOTAL - 1433 Issues</b>	<b>121,237,080</b>	<b>1,320,309,704</b>	<b>1,437,640,868</b>	<b>100.00%</b>

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**STATE OF MONTANA BOARD OF INVESTMENTS  
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**PRIVATE EQUITY POOL (MPEP) BY MANAGER**

<u>Manager</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
ADAMS STREET	184,993,886	184,993,885	213,905,012	28.75%
WELSH CARSON	42,043,055	42,043,055	55,295,005	7.43%
LEXINGTON	30,463,525	30,463,525	54,877,081	7.37%
MADISON DEARBORN	39,887,294	39,887,294	51,042,289	6.86%
CARLYLE	40,606,539	40,606,539	44,341,656	5.96%
KKR	31,328,674	31,328,674	33,302,222	4.48%
ARCLIGHT	32,175,265	32,175,265	33,251,388	4.47%
OAK HILL	22,287,066	22,287,066	28,272,370	3.80%
LEHMAN BROTHERS	17,469,586	17,469,586	22,667,557	3.05%
FIRST RESERVE	18,521,706	18,521,706	20,279,546	2.73%
JLL PARTNERS	13,424,148	13,424,148	19,222,145	2.58%
PORTFOLIO ADVISORS	15,754,779	15,754,779	16,336,246	2.20%
MATLIN PATTERSON	12,370,624	12,370,624	15,050,621	2.02%
AVENUE CAPITAL	15,938,965	15,938,965	14,665,298	1.97%
ODYSSEY INVESTMENTS	11,245,894	11,245,894	13,453,643	1.81%
TERRA FIRMA	8,554,378	12,173,472	13,310,847	1.79%
J.C. FLOWERS	18,207,293	18,207,293	12,963,283	1.74%
HELLMAN FRIEDMAN	12,567,684	12,567,684	12,912,906	1.74%
STATE STREET SPIFF	71,621	13,474,961	12,507,838	1.68%
MHR INSTITUTIONAL	10,788,757	10,788,757	12,325,993	1.66%
QUINTANA ENERGY	8,791,401	8,791,401	8,422,285	1.13%
INDUSTRY VENTURES	6,909,491	6,909,491	7,768,251	1.04%
CCMP	6,551,322	6,551,322	6,720,929	0.90%
SIGULER GUFF	5,708,023	5,708,023	5,390,229	0.72%
HARBOUR VEST	4,500,000	4,500,000	4,485,749	0.60%
BUERK DALE.	4,050,000	4,050,000	3,315,285	0.45%
OAK TREE	2,625,001	2,625,001	3,052,739	0.41%
AFFINITY	2,995,454	2,995,454	2,968,762	0.40%
HIGHWAY 12 VENTURES	2,158,305	2,158,305	1,991,776	0.27%
<b>TOTAL</b>	<b>622,989,734</b>	<b>640,012,167</b>	<b>744,098,947</b>	<b>100.00%</b>

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**STATE OF MONTANA BOARD OF INVESTMENTS  
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT**

**B-45**

**REAL ESTATE POOL (MTRP) BY MANAGER**

<u>Manager</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
JP MORGAN CHASE BANK STRATEGIC PROPERTIES FUND	37,898	68,141,976	72,327,177	21.97%
CLARION LION PROPERTIES FUND	31,957	45,000,000	49,193,888	14.94%
INVESCO CORE REAL ESTATE - USA	309	45,000,000	46,223,196	14.04%
HUDSON REALTY CAPITAL FUND IV	21,500,000	21,500,000	21,804,333	6.62%
TA ASSOCIATES REALTY FUND VIII	16,000,000	16,000,000	16,540,560	5.02%
STRATEGIC PARTNERS VALUE ENHANCEMENT FUND	13,724,239	13,724,239	15,535,633	4.72%
JER REAL ESTATE PARTNERS FUND IV	14,961,499	14,961,499	14,740,039	4.48%
ABR CHESAPEAKE FUND III	13,845,514	13,845,514	14,534,204	4.42%
BEACON CAPITAL PARTNERS FUND V	12,500,000	12,500,000	12,097,988	3.68%
MORGAN STANLEY REAL ESTATE FUND VI INTERNATIONAL	13,600,275	13,600,275	11,768,644	3.58%
DRA ADVISORS VI	10,272,803	10,272,803	10,272,803	3.12%
LIQUID REALTY FUND IV	9,239,713	9,239,713	9,743,093	2.96%
CARLYLE EUROPE REAL ESTATE PARTNERS III	4,075,098	6,343,764	6,093,312	1.85%
O'CONNOR NORTH AMERICAN PROPERTY PARTNERS II	5,619,075	5,619,075	5,619,075	1.71%
APOLLO REAL ESTATE FINANCE CORP.	4,798	4,798,000	4,718,134	1.43%
AG CORE PLUS REALTY FUND II	4,881,597	4,881,597	4,674,090	1.42%
MACQUARIE GLOBAL PROPERTY FUND III	3,794,964	3,794,964	3,670,929	1.12%
SHORT TERM INVESTMENT POOL	3,461,067	3,461,067	3,461,067	1.05%
AG (ANGELO GORDON) REALTY FUND VII	3,600,000	3,600,000	3,189,233	0.97%
ROTHSCHILD: FIVE ARROWS REALTY SECURITIES FUND V	2,499,076	2,499,076	2,496,345	0.76%
CIM FUND III	653,372	653,372	482,560	0.15%
<b>TOTAL</b>	<b>154,303,255</b>	<b>319,436,934</b>	<b>329,186,301</b>	<b>100.00%</b>

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**STATE OF MONTANA BOARD OF INVESTMENTS  
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT**

**SHORT TERM INVESTMENT POOL**

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>%</u>
AIG FUNDING INC.	2.430	07/21/08	15,000,000	14,979,750	0.65%
AIG FUNDING INC.	2.400	07/30/08	30,000,000	29,942,000	1.29%
ALLIANCEBERNSTEIN	2.240	07/08/08	25,000,000	24,989,111	1.08%
ALLIANCEBERNSTEIN	2.240	07/18/08	10,000,000	9,989,422	0.43%
ALLIANCEBERNSTEIN	2.400	08/07/08	10,000,000	9,975,333	0.43%
ANGLESEA FDG PLC & ANG	2.900	07/01/08	20,000,000	20,000,000	0.86%
ANGLESEA FDG PLC & ANG	2.860	08/04/08	10,000,000	9,972,989	0.43%
ANGLESEA FDG PLC & ANG	3.000	08/07/08	15,000,000	14,953,750	0.64%
APRECO LLC	2.750	07/15/08	45,000,000	44,951,875	1.94%
ATLANTIS ONE FDG COR	2.560	07/16/08	40,000,000	39,957,333	1.72%
BANKAMERICA CORP	2.580	08/26/08	45,000,000	44,819,400	1.93%
BUNGE ASSET FDG. COR	3.050	07/01/08	10,000,000	10,000,000	0.43%
BUNGE ASSET FDG. COR	3.050	07/03/08	10,928,000	10,926,148	0.47%
BUNGE ASSET FDG. COR	2.800	07/11/08	25,000,000	24,980,556	1.08%
CAFCO LLC	2.580	07/02/08	15,000,000	14,998,925	0.65%
CALYON NORTH AMERICA I	2.410	07/31/08	15,000,000	14,969,875	0.64%
CALYON NORTH AMERICA I	2.410	08/06/08	15,000,000	14,963,850	0.64%
CALYON NORTH AMERICA I	2.490	08/11/08	15,000,000	14,957,463	0.64%
CHARTA LLC	2.640	08/21/08	45,000,000	44,831,700	1.93%
CHESHAM FNC/ CHESH LLC	3.050	07/08/08	40,000,000	39,976,278	1.72%
CIESCO LLC	2.600	07/29/08	15,000,000	14,969,667	0.64%
DANSKE CORP.	2.600	07/14/08	25,000,000	24,976,528	1.08%
DANSKE CORP.	2.700	08/05/08	16,000,000	15,958,000	0.69%
EBURY FINANCE LTD	2.850	07/21/08	20,000,000	19,968,333	0.86%
ENTERPRISE FDG CO LLC	2.540	07/07/08	15,000,000	14,993,650	0.65%
FALCON ASSET SC CO LLC	2.760	07/25/08	40,000,000	39,926,400	1.72%
FORRESTAL CERT FDG T	2.650	07/09/08	20,000,000	19,988,222	0.86%
FOUNTAIN SQUARE CM F	2.900	08/04/08	20,000,000	19,945,222	0.86%
FOUNTAIN SQUARE CM F	3.050	08/22/08	25,000,000	24,889,861	1.07%
GENERAL ELEC CAPT CO	2.270	07/22/08	35,000,000	34,953,654	1.51%
GOTHAM FDG CORP	2.750	07/17/08	14,465,000	14,447,321	0.62%
GOTHAM FDG CORP	2.800	08/18/08	25,000,000	24,906,667	1.07%
GOVCO LLC	2.500	07/17/08	40,000,000	39,955,556	1.72%
JUPITER SECT CO LLC	2.620	07/25/08	30,000,000	29,947,600	1.29%
KITTYHAWK FUNDING	2.550	07/02/08	15,000,000	14,998,938	0.65%
LEXINGTN PKR CAP CO LL	2.750	07/18/08	15,000,000	14,980,521	0.65%
LEXINGTN PKR CAP CO LL	2.700	07/23/08	25,000,000	24,958,750	1.07%
LLOYDS BANK PLC	2.480	08/14/08	45,000,000	44,863,600	1.93%
MARKET ST FNDG CORP	2.650	07/10/08	15,000,000	14,990,063	0.65%
MARKET ST FNDG CORP	2.800	08/19/08	25,000,000	24,904,722	1.07%
MORGAN J.P. CHASE &	2.390	08/13/08	20,000,000	19,942,906	0.86%
NEPTUNE FDG CORP	3.150	07/11/08	20,000,000	19,982,500	0.86%
NEPTUNE FDG CORP	3.150	07/14/08	20,000,000	19,977,250	0.86%
PERRY GLOBAL FDG LTD	3.370	08/01/08	40,000,000	39,883,922	1.72%
RABOBANK USA FINL CO	2.520	08/28/08	40,000,000	39,837,600	1.72%
ROYAL BK OF SCOTLAND	2.610	08/22/08	40,000,000	39,849,200	1.72%
SOCIETE GEN NO AMER	2.530	07/31/08	15,000,000	14,968,375	0.64%
SOCIETE GEN NO AMER	2.610	08/12/08	25,000,000	24,923,875	1.07%
TICONDEROGA & TICOND	2.480	07/11/08	10,000,000	9,993,111	0.43%

**STATE OF MONTANA BOARD OF INVESTMENTS**  
**CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT**

**SHORT TERM INVESTMENT POOL**

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>%</u>
TORONTO DOMIN HOLDING	2.280	07/24/08	25,000,000	24,963,583	1.08%
VICTORY RECEIVABLES	2.550	07/02/08	8,000,000	7,999,433	0.34%
VICTORY RECEIVABLES	2.575	07/02/08	21,837,000	21,835,438	0.94%
VICTORY RECEIVABLES	2.830	07/24/08	15,000,000	14,972,879	0.64%
WELLS FARGO & CO	2.300	07/31/08	30,000,000	29,942,500	1.29%
WELLS FARGO & CO	2.350	08/25/08	15,000,000	14,946,146	0.64%
<b>Commercial Paper</b>	<b>55 Issue(s)</b>		<b>1,281,230,000</b>	<b>1,278,677,750</b>	<b>55.07%</b>
ALLSTATE LIFE GLOBAL FDG	2.873	08/01/08	40,000,000	40,000,000	1.72%
AMERICAN EXPRESS BK	2.648	11/07/08	40,000,000	40,000,000	1.72%
AMERICAN HONDA FIN CORP MTN	3.013	09/18/08	50,000,000	50,000,000	2.15%
JP MORGAN CHASE + CO	2.702	06/05/09	25,000,000	24,971,989	1.08%
MERRILL LYNCH + CO INC	2.638	08/22/08	25,000,000	25,000,000	1.08%
<b>Corporate Variable-Rate (Floating Rate)</b>	<b>5 Issue(s)</b>		<b>180,000,000</b>	<b>179,971,989</b>	<b>7.75%</b>
ORION_FINA	N/A	N/A	25,000,000	25,000,000	1.08%
ORION FIN USA LLC	N/A	N/A	25,000,000	25,000,000	1.08%
AXON FINL FDG LTD / LLC	N/A	N/A	50,000,000	50,000,000	2.15%
AXON FINL FDG LTD / LLC	N/A	N/A	40,000,000	40,000,000	1.72%
<b>Structured Investment Vehicles</b>	<b>4 Issue(s)</b>		<b>140,000,000</b>	<b>140,000,000</b>	<b>6.03%</b>
BANK OF SCOTLAND PLC NY	2.810	10/09/08	40,000,000	40,000,000	1.72%
CREDIT SUISSE NY	2.764	10/03/08	40,000,000	39,997,934	1.72%
<b>Certificates of Deposit</b>	<b>2 Issue(s)</b>		<b>80,000,000</b>	<b>79,997,934</b>	<b>3.45%</b>
FEDERAL HOME LN BK CONS DSC NT	2.210	08/27/08	25,000,000	24,912,521	1.07%
FEDERAL HOME LN CKS CONS DISC	2.420	09/26/08	25,000,000	24,853,792	1.07%
FEDERAL HOME LOAN BANK	2.200	04/01/09	25,000,000	24,996,375	1.08%
FEDERAL HOME LOAN BANK	2.270	04/14/09	25,000,000	25,000,000	1.08%
FEDERAL HOME LOAN BANK	2.625	04/30/09	25,000,000	25,000,000	1.08%
FEDERAL HOME LOAN BANK	3.000	06/18/09	25,000,000	25,000,000	1.08%
FEDERAL HOME LOAN MTG DISC NTS	2.150	08/08/08	25,000,000	24,943,264	1.07%
FEDERAL HOME LOAN MTG DISC NTS	2.270	08/11/08	50,000,000	49,872,444	2.15%
FEDERAL HOME LOAN MTG DISC NTS	2.170	08/18/08	25,000,000	24,927,667	1.07%
FEDERAL HOME LOAN MTG DISC NTS	2.380	09/29/08	25,000,000	24,851,250	1.07%
FEDERAL NATL MTG ASSN	3.875	07/15/08	50,000,000	49,991,829	2.15%
FEDERAL NATL MTG ASSN DISC NTS	2.170	08/06/08	25,000,000	24,945,750	1.07%
FEDERAL NATL MTG ASSN DISC NTS	2.210	08/13/08	25,000,000	24,934,007	1.07%
FEDERAL NATL MTG ASSN DISC NTS	2.120	08/20/08	25,000,000	24,926,389	1.07%
FEDERAL NATL MTG ASSN DISC NTS	2.250	08/29/08	40,000,000	39,852,500	1.72%
<b>U. S. Government Agency</b>	<b>15 Issue(s)</b>		<b>440,000,000</b>	<b>439,007,788</b>	<b>18.91%</b>
BGI INSTITUTIONAL MMF	2.570	N/A	75,000,000	75,000,000	3.23%
FIDELITY INSTL MONEY MARKET	2.630	N/A	70,000,000	70,000,000	3.01%
STATE STREET BANK + TRUST CO	2.517	N/A	4,352,667	4,352,667	0.19%
<b>Money Market Funds (Unrated)</b>	<b>3 Issue(s)</b>		<b>149,352,667</b>	<b>149,352,667</b>	<b>6.43%</b>
STATE STREET INSTL LIQUID RESERVES	2.485	N/A	55,000,000	55,000,000	2.37%
<b>Money Market Funds (Rated)</b>	<b>1 Issue(s)</b>		<b>55,000,000</b>	<b>55,000,000</b>	<b>2.37%</b>
<b>STIP Total</b>	<b>85 Issue(s)</b>		<b>2,325,582,667</b>	<b>2,322,008,128</b>	<b>100.00%</b>

**STATE OF MONTANA BOARD OF INVESTMENTS**  
**CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT**

<b>ALL OTHER FUNDS</b>						
<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
US BANK REPURCHASE AGREEMENT	2.000	07/01/08	12,123,446	12,123,446	12,123,446	0.83%
<b>Cash Equivalents</b>			<b>12,123,446</b>	<b>12,123,446</b>	<b>12,123,446</b>	<b>0.83%</b>
AA / FT WORTH HQ FIN TR	5.500	10/05/10	4,854,100	4,854,100	5,090,252	0.35%
ABBOTT LABS	3.500	02/17/09	10,000,000	9,993,330	10,014,185	0.69%
ALLSTATE LIFE GBL FDG SECD	5.375	04/30/13	5,000,000	4,995,170	4,964,867	0.34%
AMERICAN EXPRESS CO	5.500	09/12/16	5,000,000	4,979,134	4,721,178	0.32%
AMERICAN EXPRESS CO	7.000	03/19/18	3,000,000	2,988,837	3,110,207	0.21%
AMERICAN GEN FIN CORP MTN	4.875	05/15/10	5,000,000	4,999,738	4,826,428	0.33%
AMERICAN GEN FIN CORP MTN	5.900	09/15/12	5,000,000	4,975,647	4,699,752	0.32%
ARIA CDO II JERSEY NO 1 LTD	VAR	10/10/12	10,000,000	10,000,000	9,964,900	0.68%
B J SERVICES	5.750	06/01/11	5,000,000	4,996,165	5,047,879	0.35%
BANC AMER COML MTG INC COML	5.381	01/15/49	5,000,000	5,018,088	4,907,411	0.34%
BANC AMER COML MTG TR 2007 2	5.634	04/10/49	5,000,000	5,019,522	4,932,762	0.34%
BANC AMER COML MTG TR	5.838	06/10/49	5,000,000	4,998,682	4,955,617	0.34%
BANC AMER COML MTG TR	5.546	09/10/12	5,000,000	5,022,564	4,919,963	0.34%
BANC AMER COML MTG TR	5.434	12/10/12	10,000,000	10,049,028	9,734,323	0.67%
BANK AMER CORP	3.375	02/17/09	5,000,000	4,996,715	4,977,858	0.34%
BANK AMER CORP	5.375	06/15/14	5,000,000	4,972,746	4,849,492	0.33%
BUNGE NA FINANCE LP	5.900	04/01/17	5,000,000	4,995,027	4,572,843	0.31%
BURLINGTON NORTHN SANTA FE RY	7.160	01/02/20	3,774,098	3,774,098	4,022,767	0.28%
CIT GROUP EQUIP FING INC	6.490	01/05/21	5,853,187	5,853,187	5,322,013	0.36%
CIT GROUP INC	5.200	11/03/10	2,000,000	2,000,000	1,710,000	0.12%
CIT GROUP INC	5.800	07/28/11	3,000,000	3,022,400	2,535,000	0.17%
CSX CORP	5.750	03/15/13	5,000,000	4,988,964	4,950,739	0.34%
CVS CAREMARK CORP	5.750	06/01/17	5,000,000	4,824,441	4,886,533	0.33%
CAPITAL ONE FINL CORP	6.750	09/15/17	5,000,000	4,975,126	4,453,221	0.31%
CITIGROUP INC	6.000	02/21/12	5,000,000	4,999,326	5,074,318	0.35%
CITIGROUP INC	3.625	02/09/09	5,000,000	4,998,535	4,971,978	0.34%
CITIGROUP INC	5.500	08/27/12	5,000,000	5,008,973	4,928,461	0.34%
COMCAST CORP NEW	5.450	11/15/10	5,000,000	5,005,046	5,079,786	0.35%
COMM MTG TR	5.540	06/10/46	6,544,407	6,549,396	6,597,977	0.45%
CONOCOPHILLIPS CDA FDG CO I	5.625	10/15/16	6,000,000	5,999,602	6,075,670	0.42%
CONTINENTAL AIRLS	6.563	08/15/13	5,000,000	5,010,240	5,137,500	0.35%
DETROIT EDISON CO	5.200	10/15/12	5,000,000	4,970,277	5,044,700	0.35%
DONNELLEY R R + SONS CO	4.950	04/01/14	5,000,000	4,879,910	4,569,133	0.31%
ENTERGY ARK INC	4.500	06/01/10	3,000,000	2,994,910	2,918,552	0.20%
FIFTH THIRD BANCORP	5.450	01/15/17	5,000,000	4,985,159	3,961,996	0.27%
FIRST CHICAGO CORP	6.375	01/30/09	2,000,000	1,988,759	2,039,689	0.14%
FORTUNE BRANDS INC	5.375	01/15/16	3,000,000	2,984,910	2,778,888	0.19%
GE COML MTG CORP TR	5.417	12/10/49	10,000,000	10,037,697	9,821,086	0.67%
GALENA CDO I CAYMAN IS NO 1LTD	VAR	01/11/13	4,000,000	4,000,000	2,560,400	0.18%
GENERAL ELEC CO	5.250	12/06/17	5,000,000	5,011,429	4,861,290	0.33%
GENERAL ELEC CAP CORP MTN	5.000	04/10/12	5,000,000	4,979,923	5,018,236	0.34%
GENERAL ELEC CAP CORP MTN	4.375	11/21/11	10,000,000	9,828,440	9,901,661	0.68%
GENWORTH FINL INC	5.650	06/15/12	5,000,000	4,991,314	4,755,050	0.33%
GOLDMAN SACHS GROUP INC	5.350	01/15/16	5,000,000	4,956,755	4,694,656	0.32%
GOLDMAN SACHS GROUP	5.300	02/14/12	5,000,000	4,996,993	4,960,665	0.34%
GOLDMAN SACHS GROUP INC	3.875	01/15/09	5,000,000	5,006,141	4,999,934	0.34%
HSBC FIN CORP	5.500	01/19/16	5,000,000	5,006,817	4,781,853	0.33%

**ALL OTHER FUNDS**

**STATE OF MONTANA BOARD OF INVESTMENTS**  
**CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT**

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
HSBC FIN CORP	5.900	06/19/12	5,000,000	4,990,166	5,045,360	0.35%
HARTFORD FINL SVCS GROUP INC	5.375	03/15/17	5,000,000	4,988,314	4,651,149	0.32%
HARTFORD FINL SVCS GROUP INC	6.300	03/15/18	5,000,000	5,005,132	4,934,246	0.34%
HERSHEY FOODS CORP	5.300	09/01/11	1,000,000	998,761	1,017,724	0.07%
HOUSEHOLD FIN CORP	4.750	05/15/09	1,000,000	999,849	1,004,195	0.07%
ING SEC LIFE INSTL FDG	4.250	01/15/10	3,000,000	2,997,978	2,978,919	0.20%
INTERNATIONAL LEASE FIN CORP	5.125	11/01/10	5,000,000	4,990,775	4,711,171	0.32%
INTL LEASE FIN CORP MTN	4.550	10/15/09	5,000,000	5,033,700	4,925,787	0.34%
J P MORGAN CHASE AND CO	3.500	03/15/09	10,000,000	9,991,639	9,965,738	0.68%
JPMORGAN CHASE + CO	4.750	05/01/13	5,000,000	4,984,705	4,823,673	0.33%
J P MORGAN CHASE COML MTG SECS	4.200	07/12/35	10,021,326	10,062,865	9,902,474	0.68%
J P MORGAN CHASE COML MTG	3.053	01/15/38	1,353,155	1,350,683	1,337,391	0.09%
JP MORGAN CHASE	5.279	12/12/43	4,183,683	4,189,109	4,195,942	0.29%
JERSEY CENT PWR + LT CO	5.650	06/01/17	3,000,000	2,990,666	2,871,749	0.20%
KCT INTERMODAL TRANSN CORP	6.884	08/01/18	2,974,133	2,974,133	3,197,981	0.22%
KEYBANK NATL ASSN CLEVELAND OH	5.500	09/17/12	5,000,000	4,999,413	4,544,708	0.31%
KEYBANK NATL ASSN MTN	5.450	03/03/16	5,000,000	4,999,080	3,917,562	0.27%
KRAFT FOODS INC	4.125	11/12/09	3,000,000	2,996,007	2,971,999	0.20%
LEHMAN BROTHERS HLDGS INC	VAR	05/25/10	5,000,000	5,000,000	4,667,823	0.32%
LEHMAN BROTHERS HLDGS INC	5.000	01/14/11	5,000,000	4,988,826	4,811,234	0.33%
MGIC INVT CORP	5.625	09/15/11	5,000,000	4,991,428	4,279,287	0.29%
MARATHON OIL CORP	5.900	03/15/18	5,000,000	4,984,072	4,915,351	0.34%
MARSH + MCLENNAN COS INC	7.125	06/15/09	3,000,000	2,999,289	3,034,142	0.21%
MCKESSON CORP NEW	5.250	03/01/13	3,000,000	2,990,187	2,934,463	0.20%
MERRILL LYNCH + CO INC	6.400	08/28/17	5,000,000	4,993,315	4,645,097	0.32%
MERRILL LYNCH + CO INC	4.125	01/15/09	5,000,000	4,999,682	4,965,482	0.34%
METLIFE INC	5.000	11/24/13	5,000,000	4,974,061	4,863,707	0.33%
ML CFC COML MTG TR	5.590	09/12/49	10,000,000	10,047,441	9,803,263	0.67%
MORGAN STANLEY	4.000	01/15/10	5,000,000	4,987,638	4,881,474	0.33%
MORGAN STANLEY	5.050	01/21/11	5,000,000	4,993,450	4,878,352	0.33%
NATNL CITY BK CLEVELAND OH	5.250	12/15/16	5,000,000	4,996,071	3,700,000	0.25%
NATIONWIDE FINL SVCS INC	6.250	11/15/11	5,000,000	5,138,561	5,099,622	0.35%
PPL MONT LLC	8.903	07/02/20	3,502,441	3,502,441	3,809,263	0.26%
PPL ENERGY SUPPLY LLC	6.500	05/01/18	3,000,000	2,990,130	2,918,025	0.20%
PANAMERICAN BEVERAGES INC	7.250	07/01/09	3,000,000	3,009,086	3,062,458	0.21%
PRINCIPAL LIFE GLOBAL FDG MTN	5.125	10/15/13	5,000,000	4,996,113	4,859,803	0.33%
PROTECTIVE LIFE SECD TRS SECD	5.450	09/28/12	7,000,000	6,986,378	6,962,571	0.48%
PRUDENTIAL FINL INC	5.500	03/15/16	5,000,000	4,920,997	4,719,611	0.32%
SBC COMMUNICATIONS INC	5.300	11/15/10	5,000,000	4,994,848	5,102,506	0.35%
SLM CORP	4.500	07/26/10	5,000,000	4,994,213	4,600,000	0.32%
ST PAUL TRAVELERS COS INC	6.250	06/20/16	5,000,000	4,985,975	5,052,108	0.35%
SCHERING PLOUGH CORP	6.000	09/15/17	5,000,000	4,977,479	4,963,722	0.34%
SOUTHWEST GAS CORP	8.375	02/15/11	4,000,000	3,998,396	4,204,806	0.29%
UNION BK CALIF	5.950	05/11/16	5,000,000	5,003,359	4,586,334	0.31%
UNION PAC CORP	4.875	01/15/15	7,000,000	6,756,873	6,621,500	0.45%
UNITED PARCEL SVC INC	5.500	01/15/18	5,000,000	4,990,555	5,006,257	0.34%
VERIZON COMMUNICATIONS INC	5.550	02/15/16	5,000,000	4,969,458	4,898,644	0.34%
VERIZON NEW JERSEY INC	5.875	01/17/12	5,000,000	5,145,461	5,005,228	0.34%
WACHOVIA CORP NEW	5.625	10/15/16	5,000,000	4,984,087	4,548,316	0.31%
WASHINGTON MUT INC	4.200	01/15/10	5,000,000	4,997,674	4,400,000	0.30%

**ALL OTHER FUNDS**

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
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**STATE OF MONTANA BOARD OF INVESTMENTS**  
**CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT**

WELLPOINT INC	5.875	06/15/17	5,000,000	4,930,213	4,828,698	0.33%
WELLS FARGO + CO NEW	4.625	04/15/14	5,000,000	4,875,396	4,694,831	0.32%
WELLS FARGO CO NEW	5.300	08/26/11	10,000,000	9,991,692	10,102,993	0.69%
WESTERN PTYS TR	7.200	09/15/08	1,000,000	998,770	1,004,149	0.07%
WILMINGTON TR CORP	8.500	04/02/18	2,000,000	2,000,000	2,103,879	0.14%
WYETH	5.500	02/01/14	5,000,000	4,994,594	5,039,706	0.35%
ZIONS BANCORPORATION	5.650	05/15/14	3,000,000	2,997,714	2,520,713	0.17%
<b>Corporate Bonds Rated</b>			<b>516,060,529</b>	<b>515,102,160</b>	<b>499,796,852</b>	<b>34.25%</b>
BGI EQUITY INDEX FUND B	NA	NA	480,587	68,406,677	87,443,325	5.99%
<b>Equity Index Fund</b>			<b>480,587</b>	<b>68,406,677</b>	<b>87,443,325</b>	<b>5.99%</b>
MONTANA RESIDENTIAL MORTGAGES	NA	NA	59,702,382	59,702,382	58,957,838	4.04%
MONTANA COAL TAX TRUST LOANS	NA	NA	195,686,203	195,686,203	195,686,203	13.41%
<b>Loans/Mortgages</b>			<b>255,388,585</b>	<b>255,388,585</b>	<b>254,644,041</b>	<b>17.45%</b>
2273 BOOT HILL COURT, BOZEMAN MT	NA	NA	2,073,887	2,073,887	2,123,654	0.15%
CALIFORNIA STREET, HELENA MT	NA	NA	205,591	205,591	220,000	0.02%
2401 COLONIAL DRIVE, HELENA MT	NA	NA	7,235,942	7,235,942	7,776,349	0.53%
1712 NINTH AVENUE, HELENA MT	NA	NA	514,749	514,749	579,626	0.04%
100 NORTH PARK AVENUE, HELENA MT	NA	NA	6,934,384	6,934,384	6,582,860	0.45%
<b>Real Estate</b>			<b>16,964,552</b>	<b>16,964,552</b>	<b>17,282,489</b>	<b>1.19%</b>
ENSCO OFFSHORE CO	6.360	12/01/15	7,500,395	7,500,395	7,959,344	0.55%
GLOBAL INDS LTD	7.710	02/15/25	3,400,000	3,400,000	3,361,920	0.23%
ROWAN COS INC	5.880	03/15/12	9,088,000	9,088,000	9,543,581	0.65%
UNITED STATES TREAS NTS	3.875	01/15/09	2,619,260	2,630,159	2,703,364	0.19%
UNITED STATES TREAS NTS	4.000	02/15/15	20,000,000	19,049,591	20,559,399	1.41%
UNITED STATES TREAS NTS	4.250	11/15/17	15,000,000	15,171,179	15,318,152	1.05%
UNITED STATES TRES SC STRP INT	0.000	11/15/17	6,300,000	3,938,443	4,208,967	0.29%
<b>U.S. Government Direct Obligations</b>			<b>63,907,655</b>	<b>60,777,767</b>	<b>63,654,728</b>	<b>4.36%</b>
FED HM LN PC POOL G10814	5.500	05/01/13	1,032,373	1,031,998	1,049,266	0.07%
FED HM LN PC POOL G10173	6.000	01/01/09	17,188	17,183	17,616	0.00%
FED HM LN PC POOL G13081	5.000	04/01/23	9,761,081	9,761,081	9,643,461	0.66%
FED HM LN PC POOL G18244	4.500	02/01/23	9,793,044	9,604,732	9,457,801	0.65%
FED HOME LN MTG CORP MTN	5.125	07/18/18	5,000,000	5,000,000	4,988,916	0.34%
FREDDIE MAC	4.100	01/28/14	15,000,000	15,000,000	15,054,569	1.03%
FEDERAL HOME LN MTG CORP	5.050	01/26/15	10,000,000	9,979,095	10,240,482	0.70%
FEDERAL HOME LN MTG CORP	4.625	08/15/08	10,000,000	9,998,184	10,029,893	0.69%
FED HM LN PC POOL E00247	5.500	10/01/08	8,901	8,895	8,965	0.00%
FED HM LN PC POOL E00540	6.000	03/01/13	624,290	623,349	641,123	0.04%
FED HM LN PC POOL E00659	6.000	04/01/14	723,840	723,543	743,423	0.05%
FEDERAL FARM CR BKS	4.450	09/23/13	7,000,000	6,825,445	7,053,392	0.48%
FEDERAL FARM CR BKS CONS SYSTE	4.000	09/24/10	2,000,000	2,008,562	2,022,688	0.14%
FEDERAL FARM CR BKS	5.100	04/12/17	20,000,000	19,752,578	20,457,138	1.40%
FEDERAL FARM CREDIT BANK	3.400	02/07/13	19,000,000	19,000,000	18,360,017	1.26%
FEDERAL FARM CREDIT BANK	4.950	03/12/18	5,000,000	4,989,401	4,905,479	0.34%
FEDERAL HOME LN BKS	4.000	12/19/11	8,000,000	7,808,490	7,914,367	0.54%
FEDERAL HOME LN BKS	4.150	06/25/13	12,000,000	11,484,869	11,759,407	0.81%
FEDERAL HOME LN BKS	4.125	08/13/10	20,000,000	19,992,385	20,293,744	1.39%
FEDERAL HOME LN BKS	3.625	11/14/08	10,000,000	9,998,279	10,035,248	0.69%
FEDERAL HOME LN BKS	4.250	09/12/08	10,000,000	9,990,120	10,039,075	0.69%
FEDERAL HOME LN BKS	4.750	09/11/15	10,000,000	9,777,966	10,050,325	0.69%
FEDERAL HOME LN BKS CONS	4.750	12/12/08	10,000,000	9,990,313	10,097,043	0.69%

**ALL OTHER FUNDS**

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
FEDERAL HOME LN BKS	4.750	03/13/09	10,000,000	9,974,382	10,136,451	0.69%



**STATE OF MONTANA BOARD OF INVESTMENTS  
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT**

FEDERAL HOME LN BKS	5.250	06/12/09	11,500,000	11,505,166	11,755,395	0.81%
FEDERAL HOME LOAN BANKS	5.250	09/11/09	10,000,000	10,020,114	10,266,118	0.70%
FEDERAL HOME LN ASSOC	5.000	10/16/09	10,000,000	9,986,994	10,066,769	0.69%
FEDERAL HOME LOAN BANK	4.875	11/18/11	1,900,000	1,897,323	1,964,545	0.13%
FEDERAL HOME LN BANKS	4.750	12/16/16	15,000,000	14,873,688	15,111,312	1.04%
FEDERAL HOME LN BKS	5.125	03/10/17	10,000,000	10,083,645	10,414,751	0.71%
FEDERAL HOME LOAN BKS	4.875	06/08/12	4,900,000	4,864,329	5,049,483	0.35%
FEDERAL HOME LN BK	4.500	10/09/09	1,500,000	1,513,891	1,528,979	0.10%
FEDERAL HOME LOAN BANK	3.000	12/10/10	7,000,000	6,968,813	6,915,493	0.47%
FEDERAL HOME LN BKS	3.125	06/10/11	5,000,000	4,869,487	4,918,791	0.34%
FEDERAL HOME LN MTG CORP	5.625	03/15/11	10,000,000	10,025,153	10,530,610	0.72%
FEDERAL HOME LN MTG CORP	6.000	06/15/11	15,000,000	14,996,072	15,979,496	1.10%
FEDERAL HOME LN MTG CORP	3.625	09/15/08	14,000,000	14,003,001	14,030,544	0.96%
FEDERAL NATL MTG ASSN	5.550	02/16/17	20,000,000	20,043,756	20,239,626	1.39%
FEDERAL NATL MTG ASSN	5.000	04/26/17	5,000,000	4,867,719	4,938,302	0.34%
FEDERAL NATL MTG ASSN	0.010	06/01/17	14,600,000	8,342,600	9,625,196	0.66%
FEDERAL NATL MTG ASSN	7.250	01/15/10	8,000,000	8,088,871	8,493,963	0.58%
FEDERAL NATL MTG ASSN	6.625	11/15/10	10,000,000	10,103,198	10,733,625	0.74%
FEDERAL NATL MTG ASSN	4.375	07/17/13	20,000,000	19,603,914	20,048,308	1.37%
FEDERAL NATL MTG ASSN	3.875	11/17/08	10,000,000	9,967,588	10,044,630	0.69%
FEDERAL NATL MTG ASSN	3.375	12/15/08	15,000,000	14,987,340	15,047,801	1.03%
FEDERAL NATL MTG ASSN	4.125	04/15/14	10,000,000	9,625,738	9,885,012	0.68%
FEDERAL NATL MTG ASSN	4.500	08/15/08	15,000,000	15,000,000	15,042,522	1.03%
FNMA POOL 190985	7.500	08/01/09	85,656	85,656	86,614	0.01%
FEDERAL NATL MTG ASSN MTN	4.300	03/09/09	10,000,000	9,935,454	10,104,196	0.69%
FEDERAL NATL MTG ASSN	4.500	07/27/09	10,000,000	9,905,544	10,177,850	0.70%
FEDERAL NATL MTG ASSN	4.000	11/15/12	3,000,000	2,990,751	2,988,765	0.20%
FNMA POOL 254140	5.500	01/01/17	4,551,175	4,539,565	4,624,469	0.32%
FNMA POOL 254233	5.000	03/01/17	3,685,083	3,607,008	3,694,702	0.25%
FNMA POOL 254631	5.000	02/01/18	3,096,304	3,088,651	3,098,701	0.21%
FNMA POOL 303590	7.000	11/01/10	167,096	167,096	170,100	0.01%
FNMA POOL 313999	6.000	02/01/13	333,491	332,727	342,141	0.02%
FEDERAL HOME LN MTG CORP	5.000	02/16/17	10,000,000	9,898,642	10,204,766	0.70%
FNMA POOL 572220	6.000	03/01/16	186,067	185,754	191,167	0.01%
FNMA POOL 592327	5.500	06/01/16	401,765	396,179	408,235	0.03%
FEDERAL NATL MTG ASSN	3.875	07/12/13	10,000,000	9,843,291	9,858,187	0.68%
FNMA POOL 844915	4.500	11/01/20	6,861,946	6,821,870	6,685,848	0.46%
FNMA POOL 888932	4.500	11/01/22	4,553,160	4,553,160	4,436,313	0.30%
FNMA POOL 962078	4.500	03/01/23	9,831,355	9,774,219	9,503,697	0.65%
<b>U.S. Government Agency</b>			<b>525,113,814</b>	<b>515,704,818</b>	<b>524,206,909</b>	<b>35.93%</b>
<b>AOF Total</b>			<b>1,390,039,168</b>	<b>1,444,468,005</b>	<b>1,459,151,790</b>	<b>100.00%</b>

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## LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Monica Huyg, Legal Counsel



Deputy Legislative Auditors  
James Gillett  
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Statement of Net Assets of the Enterprise Fund of the state of Montana Board of Investments as of June 30, 2008, and 2007, and the related Statement of Revenues, Expenses and Changes in Fund Net Assets, and Statement of Cash Flows for each of the fiscal years then ended. The information contained in these financial statements is the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Enterprise Fund of the state of Montana Board of Investments as of June 30, 2008, and 2007, and its changes in net assets and cash flows for each of the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

*/s/ James Gillett*

James Gillett, CPA  
Deputy Legislative Auditor

November 26, 2008

**STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND  
STATEMENT OF NET ASSETS AS OF JUNE 30, 2008 AND 2007**

**Assets**

	<u>2008</u>	<u>2007</u>
<b>Current assets:</b>		
Cash and cash equivalents (Note 1)	\$ 9,230,138	\$ 29,712,816
Interest receivable	878,280	861,104
Notes/loans receivable (Note 1)	9,779,321	8,170,378
Interfund notes/loans and interest receivable (Note 1)	4,133,105	5,070,334
Component Unit notes/loans and interest receivable (Note 1)	1,856,884	1,816,397
Short-term investments at fair value (Notes 1 and 2)	9,907,678	1,062,636
Security lending cash collateral (Note 3)	1,370	0
Prepaid expenses	<u>0</u>	<u>0</u>
<b>Total current assets</b>	<b><u>35,786,776</u></b>	<b><u>46,693,665</u></b>
<b>Noncurrent assets:</b>		
Restricted investments at fair value (Notes 1 and 2)	3,920,255	3,630,292
Long-term investments at fair value (Notes 1 and 2)	2,914	
Notes/loans receivable (Note 1)	34,841,007	32,280,486
Interfund notes/loans and interest receivable (Note 1)	21,577,526	18,045,342
Component Unit notes/loans receivable (Note 1)	8,260,506	5,184,483
Capitalized cost of issue (Note 1)	1,419,379	1,526,132
Equipment	6,090	2,990
Accumulated depreciation	<u>(2,977)</u>	<u>(2,930)</u>
<b>Total noncurrent assets</b>	<b><u>70,024,700</u></b>	<b><u>60,666,795</u></b>
<b>Total assets</b>	<b>\$ <u>105,811,476</u></b>	<b>\$ <u>107,360,460</u></b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Advances	\$ 0	\$ 58,968
Due to other funds	2,434	5,280
Accrued expenses	13,873	21,231
Accrued interest payable	1,146,090	1,342,468
Security lending obligations (Note 3)	1,370	0
Arbitrage rebate tax payable	25,370	34,768
Compensated absences	12,385	16,637
Current bonds/notes payable (Note 4)	<u>98,462,463</u>	<u>99,122,441</u>
<b>Total current liabilities</b>	<b><u>99,663,985</u></b>	<b><u>100,601,793</u></b>
<b>Noncurrent liabilities</b>		
Bonds/notes payable (Note 4 )	1,435,903	2,014,709
Compensated absences	40,684	28,574
Arbitrage rebate tax payable	14,426	24,553
OPEB implicit rate subsidy (Note 10)	<u>14,910</u>	<u>0</u>
<b>Total noncurrent liabilities</b>	<b><u>1,505,923</u></b>	<b><u>2,067,836</u></b>
<b>Total liabilities</b>	<b>\$ <u>101,169,908</u></b>	<b>\$ <u>102,669,629</u></b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	\$ 3,113	\$ 60
Restricted (Note 1)	3,132,940	3,077,614
Unrestricted	<u>1,505,515</u>	<u>1,613,157</u>
<b>Total net assets (Note 7)</b>	<b>\$ <u>4,641,568</u></b>	<b>\$ <u>4,690,831</u></b>
<b>Total liabilities and net assets</b>	<b>\$ <u>105,811,476</u></b>	<b>\$ <u>107,360,460</u></b>

The accompanying notes are an integral part of these financial statements.

**STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2007**

<b>Operating revenue</b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Reimbursements	\$ 33,321	\$ 22,344
Investment income	1,043,973	931,678
Security lending income	321	25
Financing income	<u>3,425,902</u>	<u>3,449,992</u>
<b>Total operating revenue</b>	<b><u>4,503,517</u></b>	<b><u>4,404,039</u></b>
<b>Operating expenses</b>		
Personal services	297,247	256,017
Contracted services	32,163	32,349
Supplies and materials	5,419	4,443
OPEB (Note 10)	14,910	0
Communications	6,830	6,866
Travel	2,132	1,751
Rent	42,893	42,218
Repair and maintenance	300	300
Indirect and other costs	44,603	37,942
Depreciation expense	47	0
Arbitrage rebate tax expense (Note 9)	23,580	(51,294)
Security lending expense	251	25
Debt service		
Interest expense	3,729,900	3,489,805
Trustee fee expense	66,473	46,356
Bond issuance cost amortization expense	106,752	98,081
Other debt service expense	<u>179,280</u>	<u>202,577</u>
<b>Total operating expenses</b>	<b><u>4,552,780</u></b>	<b><u>4,167,436</u></b>
<b>Operating (loss) income</b>	<b><u>(49,263)</u></b>	<b><u>236,603</u></b>
<b>Nonoperating (expense):</b>		
Transfers to other funds (Note 8)	<u>0</u>	<u>(900,074)</u>
<b>Change in net assets</b>	<b>(49,263)</b>	<b>(663,471)</b>
<b>Beginning net assets</b>	<b><u>4,690,831</u></b>	<b><u>5,354,302</u></b>
<b>Ending net assets (Note 7)</b>	<b>\$ <u>4,641,568</u></b>	<b>\$ <u>4,690,831</u></b>

The accompanying notes are an integral part of these financial statements.

**STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND**  
**STATEMENT OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>Cash flows from operating activities:</b>		
Receipts for sales and services	\$ 33,321	\$ 22,344
Payments to suppliers for goods and services	(142,063)	(137,459)
Payments to employees	(296,865)	(243,266)
<b>Net cash (used for) operating activities</b>	<u>(405,607)</u>	<u>(358,381)</u>
<b>Cash flows from non-capital financing activities:</b>		
Payment of principal and interest on bonds and notes	(5,840,364)	(5,649,519)
Proceeds from issuance of bonds and notes	429,549	16,531,576
Payment of bond issue costs	0	(325,169)
Transfers to other funds (Note 8)	<u>0</u>	<u>(900,073)</u>
<b>Net cash provided by (used for) non-capital financing activities</b>	<u>(5,410,815)</u>	<u>9,656,815</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition of fixed assets	(3,100)	0
<b>Net cash (used for) capital and related financing activities</b>	<u>(3,100)</u>	<u>0</u>
<b>Cash flows from investing activities:</b>		
Collections for principal and interest on loans	23,480,099	27,151,788
Cash payments for loans	(30,025,737)	(20,285,810)
Purchase of investments	(10,043,998)	0
Proceeds from security lending	321	25
Security lending costs	(251)	(25)
Proceeds from sales or maturities of investments	1,076,000	1,520,601
Interest on investments	893,515	804,013
(Payment for) refund from arbitrage rebate tax	(43,105)	(18,627)
<b>Net cash provided by (used for) investing activities</b>	<u>(14,663,156)</u>	<u>9,171,965</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(20,482,678)	18,470,399
<b>Cash and cash equivalents, July 1</b>	<u>29,712,816</u>	<u>11,242,417</u>
<b>Cash and cash equivalents, June 30</b>	<u>9,230,138</u>	<u>29,712,816</u>
<b>Reconciliation of net income to net cash (used for) operating activities:</b>		
Net operating (loss) income	(49,263)	236,603
<b>Adjustments to reconcile net income to net cash (used for) operating activities</b>		
Depreciation	47	0
Interest on investments	(1,043,973)	(931,678)
Financing income	(3,425,902)	(3,449,992)
Interest expense	4,082,405	3,836,819
Security lending income	(321)	(25)
Security lending expense	251	25
Arbitrage rebate tax expense	23,580	(51,294)
<b>Change in assets and liabilities:</b>		
(Increase) decrease in other assets	(4,995)	25
Increase (decrease) in other payables	(7,358)	(2,993)
Increase (decrease) in due to other funds	(2,846)	1,462
Increase (decrease) in compensated absences payable	7,858	2,667
Increase (decrease) in OPEB payables (Note 10)	<u>14,910</u>	<u>0</u>
<b>Total adjustments</b>	<u>(356,344)</u>	<u>(594,984)</u>
<b>Net cash (used for) operating activities</b>	\$ <u>(405,607)</u>	\$ <u>(358,381)</u>
<b>Schedule of noncash transactions:</b>		
Increase/(decrease) in fair value of investments	\$ <u>(147,098)</u>	\$ <u>(91,775)</u>
<b>Total noncash transactions</b>	\$ <u>(147,098)</u>	\$ <u>(91,775)</u>

The accompanying notes are an integral part of these financial statements.

## STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

**NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2007**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****a. Basis of Accounting**

The Board uses the accrual basis of accounting for the Enterprise Fund. Under the accrual basis of accounting, expenses are recorded when incurred and revenues are recorded when earned. The financial statements are prepared from the Statewide Accounting, Budgeting, and Human Resource System (SABHRS) and information contained in the bond trustee statements. The statements include the financial activity administered by the Board in the Enterprise Fund.

**b. Presentation of Programs**

The Board uses the Enterprise Fund to account for its programs created under the Economic Development Bond Act and the Municipal Finance Consolidation Act.

Economic Development Bond Act programs include:

- The Stand Alone Economic Development Bond Program provides access to limited economic development projects through the issuance of conduit debt.
- The Conservation Reserve Enhancement Program (CRP), created in 1990 by issuing bonds, allows farmers to receive a lump sum payment by assigning their federal CRP contract to the Board. The farmers under contract must comply with seeding and other requirements. The Conservation Reserve Enhancement Program is currently funded by the Montana Trust Funds Bond Pool.

Municipal Finance Consolidation Act programs include:

- The INTERCAP loan program provides funds to eligible Montana governments to finance capital expenditures for up to fifteen years.
- The Irrigation District Pooled Loan Program provided funds for the Board to purchase the refunding bonds from participating irrigation districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans.

**c. Fixed Asset Depreciation**

The equipment fixed assets recorded in the Enterprise Fund are depreciated on a straight-line basis value, in accordance with state policy.

**d. Receivables**

The Enterprise Fund notes/loans receivables of \$80,024,100 as of June 30, 2008 and \$70,047,071 as of June 30, 2007, represent loans made to Montana businesses, state and local governments. The Enterprise Fund notes/loans are classified in three categories as follows:

- 1) Notes/loans receivable from local governments and Montana businesses
- 2) Interfund notes/loans receivable from state agency governments
- 3) Component Unit notes/loans receivable from certain state agencies and university units for which the State is financially accountable.

The InterFund notes/loans receivable as of June 30, 2008 and 2007 includes \$419,254 and \$520,349, respectively, in interest accruals from state agencies and university units.

**e. Capitalized Cost of Issue**

The Enterprise Fund capitalized cost of issue asset of \$1,419,379 and \$1,526,132 as of June 30, 2008 and June 30, 2007, respectively, represents paid bond issuance costs which have been capitalized and are being amortized, using the straight-line method over the life of the bonds.

**f. Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, the Enterprise Fund considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents, as identified in the Statement of Net Assets, are as follows:

		<u>June 30, 2008</u>	<u>June 30, 2007</u>
Cash in treasury	\$	13,244	\$ 21,952
Cash with fiscal agent		1	45,000
Short Term Investment Pool (STIP)		28,307	220,203
First American Treasury Obligation Fund		<u>9,188,586</u>	<u>29,425,661</u>
Total Cash and Cash Equivalents	\$	<u>9,230,138</u>	\$ <u>29,712,816</u>

The Enterprise Fund invests its operational cash in the Board's Short Term Investment Pool (STIP), an external investment pool. An external investment pool commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. STIP participants include both state agencies and local governments. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values.

**g. Restricted Net Assets**

The Statement of Net Assets for the Enterprise Fund reports restricted assets. Net assets are reported as restricted when constraints placed on net asset use are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- b. Imposed by law through constitutional provisions or enabling legislation.

The net assets of all Enterprise Fund programs with the exception of MEDB (Montana Economic Development Bonds) Guarantee Fund Account, MEDB Guarantee CRP Note Reserve, MEDB Contingency Account and CRP are restricted under bond indentures governing the use of these funds.

**h. Investments**

Investments are presented in the Statement of Net Assets at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the Board's trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable. Premiums and discounts are amortized/accreted using the straight-line method to the maturity date of the securities.

**2. INVESTMENT RISK DISCLOSURES**

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The investment risk disclosures are described in the following paragraphs.

The Enterprise Fund deposits and investments are restricted by the bond trust indentures to the following: government and agency obligations, certificates of deposits, repurchase agreements, and investment agreements. Deposits and investments must be made with Montana banks or in the Short Term Investment Pool (STIP) administered by the Board.

**Credit Risk**

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Enterprise Fund's U.S. government direct-backed securities, consisting of U.S. Treasury notes and bills, are guaranteed directly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the table below are provided by S&P's rating services.

**Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2008 and 2007, Enterprise Fund securities were recorded in book entry form in the name of U.S. Bank National Association as Trustee for the Montana Board of Investments by specific account.



As of June 30, 2008, the Enterprise Fund had \$10,041,084 in Certificates of Deposits (CDs), of which \$100,000 is covered by FDIC (Federal Deposit Insurance Corporation) insurance. The remaining balance of \$9,941,084 is not covered by deposit insurance but is collateralized by securities held by U.S. Bank's Trust Department. The securities used as collateral are held by U.S. Bank's Trust Department at 100% of the Certificate of Deposit amount in a pool for multiple depositors.

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Enterprise Fund investments include investments directly issued or explicitly guaranteed by the U.S. government, and investments in mutual funds. These investments are excluded from the concentration of credit risk requirement. The Enterprise Fund also invests in US Bank Certificates of Deposit. These CDs represent 43.6% of the investment portfolio.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Enterprise Funds' bond indentures do not formally address interest rate risk. In accordance with GASB Statement No. 40, the Board has selected the duration method to disclose interest rate risk.

State of Montana Enterprise Fund investments are categorized below to disclose credit and interest rate risk as of June 30, 2008 and June 30, 2007. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using duration as calculated by Board staff. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

#### **Credit Quality Rating and Effective Duration as of June 30, 2008**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
First American Treasury Obligation Fund	\$ 9,188,586	AAA	NA
Short Term Investment Pool (STIP)	31,221	NR	NA
U.S. Government Direct Obligations	3,786,848	AAA	1.17
Certificates of Deposit	<u>10,041,084</u>	<u>AA</u>	<u>1.21</u>
Total Investments	\$ <u>23,047,739</u>	<u>AA+</u>	<u>1.20</u>
Securities Lending Collateral Investment Pool	\$ <u>1,370</u>	NR	NA

#### **Credit Quality Rating and Effective Duration as of June 30, 2007**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
First American Treasury Obligation Fund	\$ 29,425,661	AAA	NA
Short Term Investment Pool (STIP)	220,203	NR	NA
U.S. Government Direct Obligations	<u>4,692,928</u>	<u>AAA</u>	<u>1.76</u>
Total Investments	\$ <u>34,338,792</u>	<u>AAA</u>	<u>1.76</u>
Securities Lending Collateral Investment Pool	\$ <u>0</u>	NR	NA

There were no derivative transactions during the above fiscal years for investments held by the trustee.

### **3. SECURITY LENDING**

The Enterprise Fund is a participant in the Board's Short Term Investment Pool (STIP). In fiscal years 2008 and 2007, security lending transactions were recorded for STIP.

The Board is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust "the Bank", to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan.



The Board and the bank split the earnings on security lending activities.

During fiscal years 2008 and 2007, the custodial bank lent Board public securities and received U.S. dollar and foreign currency cash, securities issued or guaranteed by the U.S. government, sovereign debt rated A or better, convertible bonds, and irrevocable bank letters of credit as collateral. The custodial bank cannot pledge or sell collateral securities unless the borrower defaults. The Board imposed no restrictions on the amount of securities available to lend during fiscal years 2008 and 2007. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period. Also, there were no losses resulting from a borrower default.

During fiscal years 2008 and 2007, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool. The Securities Lending Quality Trust had an average duration of 41 and 66 days, respectively, as of June 30, 2008 and 2007. The Quality D Trust had an average duration of 42 and 68 days, respectively, as of June 30, 2007 and 2006. Because the loans were terminable at will, their duration generally did not match the duration of the investments made with cash collateral. At year-end 2008 and 2007, the Board had no credit risk exposure to borrowers because the collateral pledged by the borrowers exceeded the value of the securities borrowed.

#### 4. BONDS PAYABLE

##### Long-Term Bonds Payable

##### Economic Development Bonds (EDB) and Municipal Finance Consolidation Act Bonds (MFCAB)

These bonds are issued under the Economic Development Bond Act, and the Municipal Finance Consolidation Act, for the purpose of assisting Montana's small businesses and local governments in obtaining low cost financing. Outstanding obligations are listed as follows (in thousands):

##### Bonds Payable as of June 30, 2008

<u>Program</u>	<u>Series</u>	<u>Amount Issued</u>	<u>Interest Range %</u>	<u>Principal Payments FY 2009</u>	<u>@ Maturity</u>	<u>Balance June 30, 2008</u>
Municipal Finance Consolidation Act Bonds (Irrigation Program) (1)	1988	\$ 4,976	6.60-7.75	\$ 45	70 (2014)	\$ 345
Conservation Reserve Enhancement Program (CRP Bonds) (2)		<u>1,508</u>	<u>6.00-7.50</u>	<u>372</u>	<u>98(2014)</u>	<u>1,508</u>
Total Bonds Payable		<u>\$ 6,484</u>		<u>\$ 417</u>		<u>\$ 1,853</u>
Less Current Portion (FY2008 Principal Payments)						<u>(417)</u>
Total Long-Term Bonds Payable						<u>\$ 1,436</u>

##### Bonds Payable as of June 30, 2007

<u>Program</u>	<u>Series</u>	<u>Amount Issued</u>	<u>Interest Range %</u>	<u>Principal Payments FY 2008</u>	<u>@ Maturity</u>	<u>Balance June 30, 2007</u>
Municipal Finance Consolidation Act Bonds (Irrigation Program) (1)	1988	\$ 4,976	6.60-7.75	\$ 45	70 (2014)	\$ 390
Conservation Reserve Enhancement Program (CRP Bonds) (2)		<u>2,287</u>	<u>6.00-7.50</u>	<u>617</u>	<u>102(2016)</u>	<u>2,287</u>
Total Bonds Payable		<u>\$ 7,263</u>		<u>\$ 662</u>		<u>\$ 2,677</u>
Less Current Portion (FY2007 Principal Payments)						<u>(662)</u>
Total Long-Term Bonds Payable						<u>\$ 2,015</u>

(1) The Board issued these bonds to provide funds to purchase the Refunding Bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds and the interest thereon are payable solely from the collection of a special tax or assessment which is a lien against real property in the Irrigation District. While the Irrigation Bonds are not obligations of the State of Montana, the bonds are limited obligations of the Board due to an irrevocable pledge to lend money for deposit by the Trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein on any payment date. The Indenture does not permit the issuance of additional bonds.

(2) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Bond Pool.

**Future debt service as of June 30, 2008 is listed below (in thousands):**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
Principal	\$ 417	\$ 347	\$ 307	\$ 329	\$ 285	\$ 168	\$ 1,853
Interest	\$ 125	\$ 96	\$ 73	\$ 52	\$ 29	\$ 9	\$ 384
Total	<u>\$ 542</u>	<u>\$ 443</u>	<u>\$ 380</u>	<u>\$ 381</u>	<u>\$ 314</u>	<u>\$ 177</u>	<u>\$ 2,237</u>

**Future debt service as of June 30, 2007 is listed below (in thousands):**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013-16</u>	<u>Total</u>
Principal	\$ 662	\$ 486	\$ 331	\$ 290	\$ 222	\$ 686	\$ 2,677
Interest	\$ 181	\$ 136	\$ 103	\$ 80	\$ 60	\$ 96	\$ 656
Total	<u>\$ 843</u>	<u>\$ 622</u>	<u>\$ 434</u>	<u>\$ 370</u>	<u>\$ 282</u>	<u>\$ 782</u>	<u>\$ 3,333</u>

**Current Bonds Payable**

The Enterprise Fund is authorized to issue INTERCAP bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than \$190 million as amended by the 2007 Legislature. The INTERCAP bonds provide funds for the Board to make loans to eligible government units. The bonds are not a debt or liability of the State of Montana. The bonds are limited obligations of the Board payable solely from: a) repayments of principal and interest on loans made by the Board to participating eligible Montana governments; b) investment income under the indenture; and c) an irrevocable pledge by the Board. The Board has no taxing power. These bonds may be redeemed, at the bondholder's option, any March 1, prior to maturity. The Board did not enter into an arms-length financing agreement to convert the bonds "put", or tender, but not resold into some other form of long-term obligation. Accordingly, these bonds, considered demand bonds, are recorded as current liabilities of the Enterprise Fund.

The INTERCAP obligations at June 30, 2008 and June 30, 2007, are listed below (in thousands):

<u>Series</u>	<u>Amount</u>	<u>Interest</u>		<u>Balance</u>	<u>Balance</u>
	<u>Issued</u>	<u>Range</u>	<u>Maturity</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
1994	\$ 7,500	Variable	2009	\$ 6,685	\$ 6,745
1995	7,500	Variable	2010	6,875	6,915
1997	10,000	Variable	2017	9,520	9,605
1998	12,500	Variable	2018	12,110	12,200
2000	15,000	Variable	2025	14,750	14,865
2003	15,000	Variable	2028	14,735	14,755
2004	18,500	Variable	2029	18,370	18,375
2007	<u>15,000</u>	Variable	2032	<u>15,000</u>	<u>15,000</u>
Total INTERCAP Debt	<u>\$ 101,000</u>			<u>98,045</u>	<u>98,460</u>
Current Portion of Long-Term Bonds Payable				<u>417</u>	<u>662</u>
Current Bonds Payable				<u>\$ 98,462</u>	<u>\$ 99,122</u>

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## 5. OTHER DEBT

### Conduit Debt

In this program, the Board is authorized to issue stand-alone industrial revenue bonds, under the Economic Development Act, as conduit (no commitment) debt. Assets and revenues of the borrower are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected on the Board's financial statements. Bonds issued by the Board as conduit (no-commitment) debt are listed below (in thousands):

<u>Project</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Balance June 30, 2008</u>	<u>Balance June 30, 2007</u>
Colstrip	October 1989	12/30/15	\$ 60,800	\$ 45,300	\$ 48,100
Yellowstone Energy (BGI)	July 1993	12/31/19	118,345	110,145	113,145
Stillwater Mining	July 2000	07/01/20	30,000	30,000	30,000
Gainey Foundation	October 2002	09/01/14	<u>6,000</u>	<u>3,775</u>	<u>4,245</u>
Total conduit debt			<u>\$ 215,145</u>	<u>\$ 189,220</u>	<u>\$ 195,490</u>

### QZAB Debt

In this program, the Board is authorized to issue Qualified Zone Academy Bonds (QZAB), under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues, and in some cases the taxing power, of the borrower are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected on the Board's financial statements. Bonds issued by the Board as QZAB conduit (no-commitment) debt are listed below (in thousands):

<u>Project</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Balance June 30, 2008</u>	<u>Balance June 30, 2007</u>
Huntley Project K-12 Schools	December 2000	07/01/13	\$ 750	\$ 750	\$ 750
Bozeman Public Schools	November 2003	11/25/12	1,586	1,586	1,586
Philipsburg Schools	December 2003	12/10/17	2,000	2,000	2,000
Cut Bank Elementary	August 2005	08/18/21	825	825	825
Cut Bank High School	August 2005	08/18/21	625	625	625
Bozeman Public Schools	December 2006	12/19/15	<u>1,459</u>	<u>1,459</u>	<u>1,459</u>
Total QZAB conduit debt			<u>\$ 7,245</u>	<u>\$ 7,245</u>	<u>\$ 7,245</u>

## 6. INTERCAP PROGRAM LOAN COMMITMENTS

The Board makes firm commitments to fund loans from the INTERCAP loan program. As of June 30, 2008 and 2007, respectively, the Board committed to make loans to eligible Montana governments totaling \$30,926,556 and \$33,237,729.

## 7. NET ASSETS

Net Assets represents the accumulated net profits of the Enterprise Fund programs. The Net Assets for fiscal years ended June 30, 2008 and June 30, 2007 include \$82,869 and (\$64,229), respectively, in unrealized appreciation (depreciation) in reporting the fair value of the Enterprise Fund investments.

## 8. TRANSFERS TO OTHER FUNDS

In fiscal year 2007, the Enterprise Fund transferred \$900,074 to the Board of Investment's Investment account. No transfers were made in fiscal year 2008.

## 9. ARBITRAGE

The fiscal year 2007 Arbitrage Rebate Tax Expense represents an over accrual of estimated arbitrage liability as calculated by a contracted vendor.

## 10. OPEB – Other Post Employment Benefits

Refer to the State of Montana Comprehensive Annual Financial Report (CAFR) Note 7. The State of Montana CAFR is

available at the Department of Administration, Administrative and Financial Service Division's website at <http://afsd.mt.gov/cafr/cafr.asp>

BOARD OF INVESTMENTS

BOARD RESPONSE



# MONTANA BOARD OF INVESTMENTS

Department of Commerce

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Helena, MT 59601

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Website: [www.investmentmt.com](http://www.investmentmt.com)

December 3, 2008

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**LEGISLATIVE AUDIT DIV.**

Ms. Tori Hunthausen, Legislative Auditor  
Legislative Audit Division  
Room 135, State Capitol  
Helena MT 59620-1705

Dear Ms. Hunthausen:

The Board of Investments appreciates the services your staff provide in reviewing the Board's procedures, internal controls, accounting practices, and the accuracy of its financial statements. Your employees are considerate during the audit process and maintain a good working relationship with Board staff.

In Fiscal 2007, the Board combined the financial statements for the seven investment pools it manages into a "consolidated" financial statement that reflected the aggregate activity for all pools. The investments managed by the Board that were not held in the pools were included in the All Other Funds (AOF) financial statement. For Fiscal 2008, the Board has combined the AOF financial statement with the consolidated investment pool statement to encompass the entire Unified Investment Program.

The audit contained two recommendations to which we offer the following responses.

## **Recommendation #1 - Montana State Fund Building**

We recommend the Board:

- A. Work with the Montana State Fund to ensure the Board of Investment's involvement in the construction of the building is completed in accordance with state law, and
- B. Implement procedures to determine the intended use of buildings when entering into real estate agreements to ensure compliance with state law.

**Concur:** The Board will work with the Montana State Fund to address any issues relating to the proper recording of the building in the state accounting records and ensure that any future buildings are recorded in the records as required.

**Recommendation #2 – Accounting for Investments in Default**

We recommend the Board implement procedures to ensure it properly accounts for investments in default status in accordance with generally accepted accounting principles.

**Concur:** The defaulted securities were initially recorded as receivables because the Board's securities accounting system hosted by State Street Bank could no longer maintain them as an investment in the STIP portfolio when they were not paid at maturity. The securities are not accruing interest and there are no scheduled principal/interest payment dates. Payments will be received as cash builds up in the investment vehicles. The securities are now recorded as investments in the state accounting system but will continue to be recorded as receivables in the Board's securities accounting system, which will be a monthly reconciliation difference between the two systems.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Carroll South', with a long horizontal flourish extending to the right.

Mr. Carroll South, Executive Director  
Montana Board of Investments